



**PENTANOVA ENERGY CORP.**

**(formerly PMI Resources Ltd.)**

**INTERIM CONDENSED CONSOLIDATED  
FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2017**

# PENTANOVA ENERGY CORP.

## INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Unaudited, expressed in U.S. Dollars)

September 30, 2017

December 31, 2016

### Assets

#### Current Assets

Cash and cash equivalents	\$ 19,844,926	\$ -
Short term investments	398,048	-
Accounts receivable (Note 8)	2,497,597	-
Inventory	870,358	-
Assets held for sale (Note 14)	638,021	-
Restricted cash (Note 7)	4,640,731	-
	<b>\$ 28,889,681</b>	<b>\$ -</b>

#### Non-current Assets

Advances toward acquisitions (Note 11)	\$ 19,821,129	\$ -
Exploration and evaluation assets (Note 9)	30,124,504	-
Property, plant and equipment (Note 10)	8,332,102	-

<b>Total Assets</b>	<b>\$ 87,167,416</b>	<b>\$ -</b>
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### Liabilities

#### Current Liabilities

Accounts payable and accrued liabilities (Note 8)	\$ 9,927,677	\$ 526,784
Cash calls assumed on acquisition (Note 6)	5,000,000	-
	<b>\$ 14,927,677</b>	<b>\$ 526,784</b>

#### Non-current Liabilities

Deferred tax liability	5,024,400	-
Decommissioning obligation	1,185,013	-

<b>Total Liabilities</b>	<b>\$ 21,137,090</b>	<b>\$ 526,784</b>
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### Shareholders' Equity

Share capital (Note 12)	\$ 63,799,393	\$ -
Contributed surplus (Note 12)	5,846,184	-
Warrants (Note 12)	10,201,910	-
Deficit	(13,666,255)	(526,784)
Accumulated other comprehensive loss	(150,906)	-

<b>Total Shareholders' Equity</b>	<b>\$ 66,030,326</b>	<b>\$ (526,784)</b>
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<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 87,167,416</b>	<b>\$ -</b>
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See accompanying notes to the interim condensed consolidated financial statements.

## PENTANOVA ENERGY CORP.

### INTERIM CONDENSED CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

For the three and nine months ended September 30

<i>(Unaudited, expressed in U.S. Dollars)</i>	For the three months ended		For the nine months ended	
	2017	2016	2017	2016
<b>Revenue:</b>				
Oil and natural gas revenue	\$ 930,576	\$ -	\$ 930,576	\$ -
Net revenue on carried working interest (Note 6)	255,861	-	255,861	-
Royalty expense	(191,911)	-	(191,911)	-
<b>Net oil and natural gas revenue</b>	<b>\$ 994,526</b>	<b>\$ -</b>	<b>\$ 994,526</b>	<b>\$ -</b>
<b>Expenses:</b>				
Operating expenses	\$ 772,566	\$ -	\$ 772,566	\$ -
General and administrative (Note 20)	1,198,085	-	2,573,267	-
Business development (Note 20)	1,412,542	-	4,735,255	-
Share based payments (Note 12)	5,440,965	-	5,440,965	-
Cost of acquisition (Note 4)	-	-	1,019,415	-
Depletion and depreciation (Note 10)	269,993	-	281,435	-
Finance (Note 13)	(11,268)	-	(20,646)	-
Foreign exchange loss/(gain)	(4,257)	-	733,754	-
Loss on revaluation of asset held for sale (Note 14)	537,795	-	537,795	-
	<b>\$ 9,616,421</b>	<b>\$ -</b>	<b>\$ 16,073,806</b>	<b>\$ -</b>
Loss before income taxes	\$ (8,621,895)	\$ -	\$ (15,079,280)	\$ -
Deferred income tax recovery	120,451	-	120,451	-
Loss from continuing operations	\$ (8,501,444)	\$ -	\$ (14,958,829)	\$ -
Income from discontinued operations (Note 14)	1,869,299	-	1,819,358	-
<b>Net loss</b>	<b>\$ (6,632,145)</b>	<b>\$ -</b>	<b>\$ (13,139,471)</b>	<b>\$ -</b>
<b>Other comprehensive loss</b>				
Foreign currency translation adjustment	\$ (421,674)	\$ -	\$ (330,295)	\$ -
Transfer of translation loss realized on disposal of foreign operations	179,389	-	179,389	-
	<b>\$ (242,285)</b>	<b>-</b>	<b>\$ (150,906)</b>	<b>-</b>
<b>Comprehensive loss</b>	<b>\$ (6,874,430)</b>	<b>\$ -</b>	<b>\$ (13,290,377)</b>	<b>\$ -</b>
Loss per share – basic and diluted (Note 12)	\$ (0.03)	\$ 0.00	\$ (0.08)	\$ 0.00
Weighted average number of common				
Shares outstanding	217,262,730	50,000	170,693,307	50,000

See accompanying notes to the interim condensed consolidated financial statements.

## PENTANOVA ENERGY CORP.

### INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

<i>(Unaudited, expressed in U.S. Dollars)</i>	Number of Common Shares	Share Capital	Contributed Surplus	Purchase Warrants	Deficit	AOCL <sup>(1)</sup>	Total
Balance at December 31, 2015 and June 30, 2016	50,000	\$ -	\$ -	\$ -	\$ 3,433	\$ -	\$ 3,433
<b>Balance at December 31, 2016</b>	<b>50,000</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (526,784)</b>	<b>\$ -</b>	<b>\$ (526,784)</b>
Shares redeemed (Note 12)	(50,000)	-	-	-	-	-	-
Shares issued pursuant to private placement (Note 5)	160,441,560	29,615,178	-	-	-	-	29,615,178
Broker warrants issued pursuant to private placement (Note 12)	-	(308,866)	308,866	-	-	-	-
Shares issued to consultant (Note 12)	1,200,000	449,136	-	-	-	-	449,136
Loss from continuing operations	-	-	-	-	(2,030,443)	-	(2,030,443)
<b>Balance at April 4, 2017</b>	<b>161,641,560</b>	<b>29,755,448</b>	<b>308,866</b>	<b>-</b>	<b>(2,557,227)</b>	<b>-</b>	<b>27,507,087</b>
Shares issued in Transaction (Notes 4)	19,473,289	7,252,621	-	-	-	-	7,252,621
Costs incurred pursuant to Transaction (Note 12)	-	(396,820)	-	-	-	-	(396,820)
Shares issued for transaction costs (Notes 12 & 15)	1,600,000	595,903	(595,903)	-	-	-	-
Loss from continuing operations	-	-	-	-	(4,426,942)	-	(4,426,942)
Loss from discontinued operations (Note 14)	-	-	-	-	(49,941)	-	(49,941)
Foreign currency translation adjustment	-	-	-	-	-	91,379	91,379
<b>Balance at June 30, 2017</b>	<b>182,714,849</b>	<b>37,207,152</b>	<b>(287,037)</b>	<b>-</b>	<b>(7,034,110)</b>	<b>91,379</b>	<b>29,977,384</b>
Shares issued for Colombian assets (Note 6)	206,145	150,000	-	-	-	-	150,000
Shares issued pursuant to private placement (Note 5)	20,625,000	9,039,821	-	-	-	-	9,039,821
Warrants on private placement (Note 5)	-	-	-	3,648,285	-	-	3,648,285
Shares issued for Alianza acquisition (Note 6)	11,406,250	5,201,690	-	-	-	-	5,201,690
Warrants on acquisitions (Note 6)	-	-	-	2,098,310	-	-	2,098,310
Shares issued as finders fees on Alianza Acquisition (Note 6)	468,750	187,500	-	-	-	-	187,500
Share issued for advances toward acquisitions (Note 11)	24,968,750	11,344,685	-	-	-	-	11,344,685
Warrants issued for advances toward acquisitions (Note 11)	-	-	-	4,455,315	-	-	4,455,315
Shares issued to for services rendered (Note 15)	746,858	242,545	-	-	-	-	242,545
Shares issued on acquisition success fee (Note 15)	1,065,000	426,000	-	-	-	-	426,000
Share based compensation (Note 12)	-	-	6,133,221	-	-	-	6,133,221
Loss from continuing operations	-	-	-	-	(8,501,444)	-	(8,501,444)
Income from discontinued operations (Note 14)	-	-	-	-	1,869,299	-	1,869,299
Foreign currency translation adjustment	-	-	-	-	-	(421,674)	(421,674)
Transfer of translation loss realized on disposal of foreign operations	-	-	-	-	-	179,389	179,389
<b>Balance at September 30, 2017</b>	<b>242,201,602</b>	<b>\$ 63,799,393</b>	<b>\$ 5,846,184</b>	<b>\$ 10,201,910</b>	<b>\$ (13,666,255)</b>	<b>\$ (150,906)</b>	<b>\$ 66,030,326</b>

(1) Accumulated other comprehensive loss

See accompanying notes to the interim condensed consolidated financial statements.

# PENTANOVA ENERGY CORP.

## INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the three and nine months ended September 30

<i>(Unaudited, expressed in U.S. Dollars)</i>	For the three months ended		For the nine months ended	
	2017	2016	2017	2016
<b>Operating Activities</b>				
Net loss	\$ (8,501,444)	\$ -	\$ (14,958,829)	\$ -
Items not affecting cash:				
Depreciation (Note 10)	269,993	-	281,435	-
Share based payments (Note 12)	5,440,965	-	5,440,965	-
Unrealized foreign exchange (gain)/loss	(105,025)	-	264,456	-
Shares issued for services rendered (Note 12)	430,045	-	879,181	-
Cost of acquisition (Note 4)	-	-	1,019,415	-
Loss on revaluation of assets held for sale (Note 14)	537,795	-	537,795	-
Accretion on decommissioning obligations (Note 13)	4,495	-	4,495	-
Deferred income tax recovery	(120,451)	-	(120,451)	-
Change in non-cash working capital (Note 18)	(730,138)	-	1,388,092	-
Continuing operations	(2,773,765)	-	(5,263,446)	-
Discontinued operations	(12,687)	-	(56,482)	-
	\$ (2,786,452)	\$ -	\$ (5,319,928)	\$ -
<b>Investing Activities</b>				
Cash payments on Maria Conchita Acquisition, net	\$ -	-	\$ (1,098,295)	-
Cash payments on SN-9 Acquisition (Note 6)	(850,000)	-	(2,500,000)	-
Cash payments on Tiburon Acquisition (Note 6)	-	-	(250,000)	-
Exploration and evaluation asset additions (Note 9)	(866,967)	-	(2,067,712)	-
Property, plant and equipment additions (Note 10)	(37,793)	-	(41,646)	-
Acquisition of Bolivar, net of cash acquired (Note 6)	-	-	(48,929)	-
Acquisition of Alianza, net of cash acquired (Note 6)	(7,946,594)	-	(7,946,594)	-
Investment in Horizon (Note 14)	(1,176,000)	-	(1,176,000)	-
Advance toward acquisitions (Note 11)	(2,121,129)	-	(4,021,129)	-
Change in restricted cash (Note 7)	(297,854)	-	(4,637,820)	-
Change in non-cash working capital (Note 18)	503,993	-	(1,259,367)	-
	\$ (12,792,344)	\$ -	\$ (25,047,492)	\$ -
<b>Financing Activities</b>				
Shares issued, net of costs (Note 12)	\$ 9,203,651	-	\$ 38,658,169	-
Warrants issued, net of costs (Note 12)	3,648,285	-	3,648,285	-
Cash acquired on Transaction (Note 4)	-	-	8,188,819	-
Transaction costs	-	-	(396,820)	-
Change in non-cash working capital (Note 18)	-	-	(53,685)	-
	\$ 12,851,936	\$ -	\$ 50,044,768	\$ -
<b>Net increase (decrease) in cash</b>	<b>\$ (2,726,860)</b>	<b>-</b>	<b>\$ 19,677,348</b>	<b>-</b>
Foreign exchange gain (loss) on cash	402,112	-	167,578	-
<b>Increase (decrease) in cash</b>	<b>(2,324,748)</b>	<b>-</b>	<b>19,844,926</b>	<b>-</b>
Cash, beginning of period	22,169,674	-	-	-
<b>Cash, end of period</b>	<b>\$ 19,844,926</b>	<b>\$ -</b>	<b>\$ 19,844,926</b>	<b>\$ -</b>

Cash is defined as cash and cash equivalents.

See accompanying notes to the interim condensed 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 4). 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 25<sup>th</sup> 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. BASIS OF PRESENTATION

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting” under International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board.

These interim condensed consolidated financial statements have been prepared on a historical cost basis, are presented in U.S. dollars, and were authorized for issue by the Board of Directors on November 27, 2017.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### 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 operations and comprehensive income (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. Additionally, foreign exchange gains and losses related to certain intercompany loans that are permanent in nature are included in accumulated other comprehensive income.

### **Income Taxes**

Tax expense comprises current and deferred tax. Tax is recognized in the income statement 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.

### **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 & 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. 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***

The assessment for impairment entails comparing the carrying value of the CGU with its recoverable amount: that is, the higher of fair value, less costs of disposal, and value in use. 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 CGU's are reviewed quarterly 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. If the carrying amount of the CGU exceeds the recoverable amount, the CGU is written down with an impairment recognized in net income (loss).

The recoverable amount is the higher of fair value, less costs of disposal, and the value-in-use. Fair value, less costs of disposal, is derived by estimating the discounted pre-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.

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.

### **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.

### **Joint arrangements**

A portion of the Company's exploration, development and production activities are conducted jointly with others through unincorporated joint operations. These financial statements reflect only the Company's proportionate interest of these joint operations and the proportionate share of the relevant revenue and related costs.

### **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 performance warrants are exercised, the issuance of common



shares is recorded as an increase to shareholders' capital and a corresponding decrease to contributed surplus.

### **Non-derivative 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.

Subsequent to initial recognition, non-derivative financial instruments are measured as described below:

### ***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.

### **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.

### **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***

On January 1, 2018, the Company will be 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.

#### ***ii) IFRS 9: Financial Instruments***

On January 1, 2018, the Company will be 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.

#### ***iii) IFRIC 22: Foreign Currency Transactions and Advance Consideration***

On January 1, 2018, the Company will be 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.

#### ***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.



Interpretation of the new IFRS standards and amendments is currently in progress; the full impact on the financial statements will be determined upon completion of management’s assessment.

#### 4. 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 5) 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:

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

#### 5. 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.

## 6. 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 under the Exploration and Production ("E&P") Contract with the ANH (the "Maria Conchita Acquisition"). This acquisition was completed through the purchase of all of the issued and outstanding shares of the corporation Bochica Investment Holdings Ltd. ("Bochica") and certain other subsidiaries. The Company acquired the 40% 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 8).
- b) award the sellers a 20% retained beneficial working interest and carry the sellers' beneficial interest for costs incurred for the drilling of three new wells, the re-entry and workover of 2 existing wells, the construction and provision of a gas pipeline and connecting flowlines framework to connect block production fields to the Colombian transportation network, and the construction and provision of a gas plant to process the gas produced in the block to commercial conditions.
- c) pay consideration of \$1.5 million to the sellers to be paid out of the Company's portion of net operating revenue generated from future commercial production on the Maria Conchita Block.
- d) assumption of all rights and obligations under the Master Sales and Purchase Agreement ("MSPA") with the Turkish Petroleum International Company ("TPIC"), whereby the seller was to acquire 100% beneficial working interest and operatorship in the Maria Conchita Block E&P Contract. The remaining obligations assumed under the MSPA included:
  - i. present a letter of credit in favor of TPIC for \$9,000,000 as security for the performance of the first well under the MSPA.
  - ii. acquire the TPIC 51% beneficial working interest and operatorship for \$2,000,000.
  - iii. acquire the 9% beneficial working interest and net profit interest held in the Maria Conchita Block from another third party contractual partner in the block for \$500,000. This working interest has been acquired and consideration has been paid in full.

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- iv. pay to TPIC certain operational expenses in the amount of \$666,489. This amount was paid subsequent to the acquisition.
- v. acknowledge and comply with the existing overriding royalty agreements previously executed between TPIC, the seller, and other existing third party partners in the Maria Conchita Block E&P Contract.

In February 2017, after direct negotiations with TPIC, the Company agreed to the deposit of \$1.75 million in escrow to secure against any penalty imposed by the ANH if current phase commitments under the E&P Contract of the Maria Conchita Block are not fulfilled. These funds were deposited in escrow by the Company and have been accounted for as restricted cash (see Note 7).

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 IAS 16. 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)
<b>Total net assets acquired at fair value</b>	<b>\$ 1,000,000</b>
<hr/>	
<b>Total cash consideration</b>	<b>\$ 1,000,000</b>

***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 9). The Company agreed to the following terms with the sellers:

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

***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 9). The Company agreed to the following terms with the seller:



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

***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 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)
<b>Total net assets acquired at fair value</b>	<b>\$ 50,000</b>
<hr/>	
<b>Total cash consideration</b>	<b>\$ 50,000</b>

***Patagonia Oil Corp.***

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

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



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

Prior to Patagonia being acquired by the Company, Patagonia had successfully entered into binding agreements to acquire certain exploration, development and producing oil and gas assets in Argentina, as described below and in Note 19.

***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 owed to YPF S.A. (the "YPF Cash Calls"), the operator to Alianza's non-operated participating interest in the Llanquanelo Asset (hereinafter referred to as the "Alianza Acquisition"). Patagonia agreed to the following terms with the seller:

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

By way of the Alianza Acquisition, the Company acquires a 29% participating interest in the Llanquanelo 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:

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Cash	\$ 53,406
Short term investments	393,621
Accounts receivable	2,182,418
Property, plant and equipment	8,519,811
Exploration and evaluation assets	20,787,821
Accounts payable	(311,708)
Deferred income tax liability	(5,144,851)
Decommissioning obligation	(1,180,518)
<b>Total net assets acquired at fair value</b>	<b>\$ 25,300,000</b>

Cash consideration 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
<b>Total consideration</b>	<b>\$ 25,300,000</b>

The YPF Cash Calls represent certain outstanding cash call balances owed to the operator of the Llançanelo 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 September 30, 2017, the balance of the YPF Cash Calls is accounted for as a current liability.

From July 31, 2017 to September 30, 2017, the above business combination contributed \$221,960 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 incremental increase to operating income of the Company for the nine months ended September 30, 2017 would have been approximately \$2.2 million.

## 7. RESTRICTED CASH

As of September 30, 2017, funds totaling \$4,640,731 (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	2,547,405
Tiburón ANH Guarantee	343,326
<b>Balance as at September 30, 2017</b>	<b>\$ 4,640,731</b>

As of September 30, 2017, a deposit of \$1,750,000 was held in escrow in relation to the operations on the Maria Conchita Block (see Note 6). This escrow amount was established in order to secure against any penalty imposed by the ANH if current phase commitments under the Maria Conchita E&P Contract are not fulfilled. This escrow deposit is to be released to the Company once current phase commitments are completed.



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

## 8. 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 September 30, 2017:

Value-added tax receivable	\$ 887,477
Sales receivable	921,572
Other receivables	688,548
<b>Accounts receivable</b>	<b>\$2,497,597</b>
Trade accounts payable	\$2,687,157
Joint venture payables	1,990,520
Consideration payable on Acquisitions	5,250,000
<b>Accounts payable and accrued liabilities</b>	<b>\$9,927,677</b>

## 9. EXPLORATION AND EVALUATION ASSETS

Exploration and evaluation (“E&E”) assets for the nine months ended September 30, 2017 were recognized at a carrying balance of \$30,124,504 (December 31, 2016 - nil). E&E assets consists of the following amounts:

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	Maria Conchita	SN-9	Tiburon	Llancanelo	Total
Acquisitions	\$ 3,326,715	\$ 2,500,000	\$ 250,000	\$ 20,787,821	\$ 26,864,536
Capital additions	915,687	779,738	120,000		1,815,425
Additional 9% working interest in Maria Conchita	500,000				500,000
Capitalized general and administrative expenses	227,242	6,418		18,627	252,287
Share based payments	456,889	55,380		179,987	692,256
<b>Balance as at September 30, 2017</b>	<b>\$ 5,426,533</b>	<b>\$ 3,341,536</b>	<b>\$ 370,000</b>	<b>\$ 20,986,435</b>	<b>\$ 30,124,504</b>

During the three and nine months ended September 30, 2017, the Company capitalized \$117,228 and \$252,287 of general and administrative expenses to E&E assets, respectively.

#### 10. PROPERTY, PLANT, AND EQUIPMENT

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

	<u>Oil and gas assets</u>		Fixed assets	Total
	Llancanelo	Mariposa		
Acquisitions	\$ 5,394,000	\$ 3,125,811	\$ 52,080	\$ 8,571,891
Capital additions		-	41,646	41,646
Depletion & depreciation	(231,780)	(30,881)	(18,774)	(281,435)
<b>Balance as at September 30, 2017</b>	<b>\$ 5,162,220</b>	<b>\$ 3,094,930</b>	<b>\$ 74,952</b>	<b>\$ 8,332,102</b>

#### 11. ADVANCES TOWARD ACQUISITIONS

During the nine months ended September 30, 2017, the Company had advanced consideration towards several acquisitions in Argentina. As outlined in Note 19, each of these acquisitions closed subsequent to September 30, 2017. The consideration advanced consisted of both cash and Units (as previously defined in Note 5). The components of the "Advances Toward Acquisitions" are as follows:

	Common Shares	Purchase Warrants	Cash	Total
Roch Asset Acquisition	\$ 3,562,801	\$ 1,437,199	\$ 2,000,000	\$ 7,000,000
KM8 Acquisition	7,781,883	3,018,117	1,521,129	12,321,129
Llancanelo Farm-in			500,000	500,000
<b>Balance as at September 30, 2017</b>	<b>\$ 11,344,684</b>	<b>\$ 4,455,316</b>	<b>\$ 4,021,129</b>	<b>\$ 19,821,129</b>

## 12. SHARE CAPITAL

### Common shares

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

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

As 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 5. 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 Acquisition and for Advances Toward Acquisitions, the Company issued 11,406,250 and 24,218,750 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 resulted in a total valuation of \$7,300,000 (C\$9,500,000) related to the Alianza Acquisition (Note 6) and \$15,500,000 (C\$19,375,000) related to Advances Toward Acquisitions (Note 11). Of the \$7,300,000 (C\$9,500,000) Unit value attributed to the Alianza Acquisition, \$5,201,690 (C\$6,502,113) and \$2,098,310 (C\$2,622,887) was allocated to the common shares and share purchase warrants, respectively. An additional 468,750 common shares were issued as finders fees pursuant to the Alianza Acquisition, valued at \$187,500 (C\$234,375). Of the \$15,500,000 (C\$19,400,000) Unit value attributed to the Advances Toward Acquisition, \$11,044,685 (C\$13,805,856) and \$4,455,315 (C\$5,569,144) was allocated to the common shares and share purchase warrants, respectively. An additional 750,000 common shares were issued as finders fees pursuant to the Advances Toward Acquisitions, valued at \$300,000 (C\$375,000), which were issued to a related officer of the Company.

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.

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

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

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

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

The following summarizes information about stock options outstanding as at September 30, 2017:

Exercise prices (C\$)	Number of options outstanding	Weighted average term to expiry (years)	Number of options exercisable
0.61	975,000	1.12	975,000
12.60	9,284	1.06	9,284
21.00	1,785	2.40	1,785
0.80	22,187,500	9.86	22,048,569
	<b>23,173,569</b>	<b>9.49</b>	<b>23,034,638</b>

For the stock options issued during the nine months ended September 30, 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 nine months ended September 30, 2017 equated to \$6,133,221. Of this amount \$692,256 was capitalized and \$5,440,965 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 September 30, 2017 are as follows:

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

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 September 30, 2017 there is no difference between the basic loss per share and the diluted loss per share amounts. For the periods ended September 30, 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.

## 13. FINANCE

The components of finance expenses/income are as follows:

For periods ended September 30, 2017	Three months	Nine months
<b>Cash:</b>		
Interest income	\$ (127,318)	\$ (152,574)
Interest expenses and bank charges	10,406	26,284
Debt related expenses	101,149	101,149
	<b>\$ (15,763)</b>	<b>\$ (25,141)</b>
<b>Non-cash:</b>		
Accretion on decommissioning obligation	\$ 4,495	\$ 4,495
<b>Total finance expenses (income)</b>	<b>\$ (11,268)</b>	<b>\$ (20,646)</b>

## 14. DISCONTINUED OPERATIONS

### 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 nine months ended September 30, 2017. The gain related to the disposition of the interests has been included in discontinued operations.

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



Net income from discontinued operations for the three and nine months ended September 30, 2017 are as follows:

<b>For the periods ended September 30, 2017</b>	<b>Three months</b>	<b>Nine Months</b>
Gain on sale of disposed liabilities	\$ 1,875,840	\$ 1,875,840
Foreign exchange gain	264	1,356
General and administrative expenses	(6,805)	(57,838)
<b>Net income relating to discontinued operations</b>	<b>\$ 1,869,299</b>	<b>\$ 1,819,358</b>

### 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. Certain directors of this third party are also directors of the Company.

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

## 15. RELATED PARTIES

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

- a) Unsecured loans of \$1.65 million were advanced to the Company by one of the directors in January 2017. As at September 30, 2017, the unsecured had been re-paid in full by the Company.
- b) In January 2017, the Company acquired 100% of the shares of Bochica (see Note 6) and rights to an 80% participating interest in the Maria Conchita Block. The terms and conditions of the Maria Conchita Acquisition included that former shareholders of Bochica retained a 20% carried interest in the Maria Conchita Block. A certain officer of the Company previously served as President and Director of Bochica until August 26, 2016, and as former shareholder of Bochica holds a minority indirect interest on the 20% carried interest, which amounts to approximately 1.2% of the total working interest on the Maria Conchita Block.
- c) PentaNova pays a monthly advisory fee to a firm affiliated with a director of PentaNova. As per the consulting agreement with this firm, PentaNova pays a monthly fee of C\$10,000 plus reimbursable expenses. Furthermore, additional fees are to be paid pursuant to the closing of successful financing arrangements, divestitures, or acquisitions for which the firm provides advisory services. Success fees were paid upon closing of the private placements summarized in



Note 5, which resulted in the Company paying C\$450,000 to the firm. 1.6 million shares were issued to the firm in conjunction with the closing of the Transaction, which equated to \$595,903 (C\$800,000) based on the fair value of the shares at the time of issuance (Note 12). Also, in conjunction with certain acquisitions of assets in Argentina, the firm was issued 1,065,000 shares as a success fee for their advisory services. The shares were valued at \$426,000 at the time of issuance. In relation to the disposal of the oil and gas assets in France, as outlined in Note 14, this firm was allocated 250,000 of the Horizon shares that PentaNova acquired.

- d) A company with an affiliated director of PentaNova provided services to the Company during the nine months ended September 30, 2017. In aggregate, the services performed amounted to \$457,291. To satisfy this 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 nine months ended September 30, 2017, this royalty equated to \$21,015 in royalty expense to the Company.

## 16. COMMITMENTS

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

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

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

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

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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.

## 17. SEGMENTED INFORMATION

The following tables show information regarding the Company's segments for the three and nine months ended September 30, 2017.

For the three months ended September 30, 2017	Argentina	Colombia	Corporate	Total
<b>Revenue:</b>				
Oil and natural gas revenue	\$ 930,576	\$ -	\$ -	\$ 930,576
Net revenue on carried working interest	255,861	-	-	255,861
Royalty expense	(191,911)	-	-	(191,911)
<b>Net oil and natural gas revenue</b>	<b>994,526</b>	<b>-</b>	<b>-</b>	<b>994,526</b>
<b>Expenses:</b>				
Operating expenses	772,566	-	-	772,566
General and administrative	254,234	434,566	509,285	1,198,085
Business development	214,576	-	1,197,966	1,412,542
Share based payments	-	-	5,440,965	5,440,965
Cost of acquisition	-	-	-	-
Depletion and depreciation	262,661	7,332	-	269,993
Finance	4,495	(92,126)	76,363	(11,268)
Foreign exchange loss/(gain)	(34,894)	(104,193)	134,830	(4,257)
Loss on revaluation of asset held for sale	-	-	537,795	537,795
	<b>1,473,638</b>	<b>245,579</b>	<b>7,897,204</b>	<b>9,616,421</b>
<b>Before tax loss from continuing operations</b>	<b>\$ (479,112)</b>	<b>\$ (245,579)</b>	<b>\$ (7,897,204)</b>	<b>\$ (8,621,895)</b>
<b>Assets September 30, 2017</b>	<b>\$ 52,084,928</b>	<b>\$ 13,515,326</b>	<b>\$ 21,567,162</b>	<b>\$ 87,167,416</b>

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<b>For the nine months ended September 30, 2017</b>	<b>Argentina</b>	<b>Colombia</b>	<b>Corporate</b>	<b>Total</b>
<b>Revenue:</b>				
Oil and natural gas revenue	\$ 930,576	\$ -	\$ -	\$ 930,576
Net revenue on carried working interest	255,861	-	-	255,861
Royalty expense	(191,911)	-	-	(191,911)
<b>Net oil and natural gas revenue</b>	<b>994,526</b>	<b>-</b>	<b>-</b>	<b>994,526</b>
<b>Expenses:</b>				
Operating expenses	772,566	-	-	772,566
General and administrative	254,234	782,240	1,536,793	2,573,267
Business development	214,576	7,186	4,513,493	4,735,255
Share based payments	-	-	5,440,965	5,440,965
Cost of acquisition	-	-	1,019,415	1,019,415
Depletion and depreciation	262,661	18,774	-	281,435
Finance	4,495	(93,482)	68,341	(20,646)
Foreign exchange loss/(gain)	(34,894)	25,838	742,810	733,754
Loss on revaluation of asset held for sale	-	-	537,795	537,795
	<b>1,473,638</b>	<b>740,556</b>	<b>13,859,612</b>	<b>16,073,806</b>
<b>Before tax loss from continuing operations</b>	<b>\$ (479,112)</b>	<b>\$ (740,556)</b>	<b>\$ (13,859,612)</b>	<b>\$ (15,079,280)</b>
<b>Assets September 30, 2017</b>	<b>\$52,084,928</b>	<b>\$13,515,326</b>	<b>\$ 21,567,162</b>	<b>\$ 87,167,416</b>



## 18. SUPPLEMENTAL CASH FLOW INFORMATION

For the periods ending September 30	Three months ended		Nine months ended	
	2017	2016	2017	2016
Accounts receivable	\$ (2,090,231)	\$ -	\$ (2,497,597)	\$ -
Inventory	(5,935)	-	(870,358)	-
Accounts payable and accrued liabilities	(1,131,696)	-	4,150,894	-
Assets held for sale	(1,827,568)	-	-	-
Working capital adjustments for Bochica acquisition	400,000	-	(2,328,420)	-
Working capital adjustments for SN-9 acquisition	850,000	-	-	-
Working capital adjustments for Bolivar acquisition	-	-	(3,151)	-
Working capital adjustments for Transaction	1,708,576	-	(247,037)	-
Working capital adjustments for Alianza acquisition	1,870,710	-	1,870,710	-
<b>Change in non-cash working capital</b>	<b>\$ (226,144)</b>	<b>\$ -</b>	<b>\$ 75,041</b>	<b>\$ -</b>
Relating to:				
Operating activities	\$ (730,138)	\$ -	1,388,093	\$ -
Investing activities	503,993	-	(1,259,367)	-
Financing activities	-	-	(53,685)	-
<b>Change in non-cash working capital</b>	<b>\$ (226,145)</b>	<b>\$ -</b>	<b>\$ 75,041</b>	<b>\$ -</b>

## 19. SUBSEQUENT EVENTS

### Argentina Acquisitions

#### *Roch S.A.*

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

- a) Pay \$2 million in cash consideration upon completion of certain conditions by the seller, which has been paid by the Company.
- b) Assume \$3 million in unpaid cash calls relating to operations on the Llanquanelo 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.
- c) Issue 7,812,500 Units of the Company at a subscription price of C\$0.80 that total to consideration of \$5.0 million. Each unit is comprised of one common share of PentaNova and one warrant to purchase one common share of PentaNova at a purchase price of C\$1.05 within a period of 5 years from the date of issuance of the warrants. The Units have been issued to the seller.



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

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

#### ***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 has been paid by the Company.
- c) Issue 16,406,250 Units of the Company at a subscription price of C\$0.80 that total to consideration of \$10.5 million. Each unit will 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 within a period of 5 years from the date of issuance of the warrants. The Units have been issued to the seller.
- d) Pay \$0.8 million in cash consideration after the closing of the definitive agreement.

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

In connection with the acquisition of the KM8 Asset, a certain member of management of the Company (prior to becoming an employee of the Company) was also a director and shareholder with a controlling interest of the original buyer of the KM8 Asset and a party to the KM8 Acquisition transaction. This company, as the original buyer, assigned its rights and obligations under the KM8 Acquisition to Patagonia. Furthermore, this company received a finders fee of 750,000 common shares of PentaNova, as mentioned previously (see Note 12).

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

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



### **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.
- b) the replacement of the aforementioned letter of credit for \$9.0 million with the deposit of \$9.0 million into escrow that will directly fund the drilling of the first well under the MSPA, which will fulfill the current phase commitment.
- c) the reduction of \$0.6 million of payable amounts owed by one of Bochica's subsidiaries to TPIC prior to the acquisition of Bochica by the Company relating to past operations on the Maria Conchita Block. This reduction in payables will be 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.

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

Pentanova and American Oil and Gas ("AOG") have entered into a Letter of Intent outlining the terms and conditions for the Farm-in by AOG on Pentanova's beneficial working interest held in the SN-9 block. To complete the agreement, AOG will Farm-in for half of the Company's 80% beneficial working interest, by way of replacing the \$2.5 million guarantee required by the ANH license, as well as funding 100% of the Phase I minimum exploration work program under the ANH contract, equivalent to \$22 million. Pentanova shall reimburse 50% of the funds invested by AOG in the Phase I activities from 70% of Pentanova's net production. Further capital commitments will be assumed proportionally by the partners. The remaining 20% working interest on the block is held by other third party partners.

## **20. COMPARATIVE FIGURES**

Certain reclassifications have been made to the prior period's financial statements to enhance comparability with the current period's financial statements. Amounts previously included in general and administrative expenses for the three months ended March 31, 2017 and six months ended June 30, 2017 have been reclassified as either 1) business development expenses as they are non-recurring expenses that are unrelated to the Company's normal course of operations, or 2) as finance expenses as this classification is more representative of the nature of these costs. These reclassifications had no effect on the loss from continuing operations for the periods as illustrated below:

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	<b>For the three months ended March 31, 2017</b>		<b>For the six months ended June 30, 2017</b>	
	<b>Unadjusted</b>	<b>Adjusted</b>	<b>Unadjusted</b>	<b>Adjusted</b>
General and administrative	\$1,587,169	\$ 316,314	\$ 1,365,804	\$ 1,375,182
Business development	-	1,267,021	3,322,713	3,322,713
Cost of acquisition	-	-	1,019,415	1,019,415
Finance	-	3,834	-	(9,378)
Depreciation	2,893	2,893	11,442	11,442
Foreign exchange loss	440,381	440,381	738,011	738,011
<b>Loss from continuing operations</b>	<b>\$ 2,030,443</b>	<b>\$ 2,030,443</b>	<b>\$ 6,457,385</b>	<b>\$ 6,457,385</b>