

# **PMI RESOURCES LTD. (formerly Petromanas Energy Inc.)**

Management's Discussion and Analysis  
For the year ended December 31, 2016

---

The following management's discussion and analysis ("MD&A") is dated March 31, 2017, and should be read in conjunction with the accompanying audited consolidated financial statements of PMI Resources Ltd. (the "Company" or "PMI") (formerly Petromanas Energy Inc.) for the year ended December 31, 2016. The Company was originally incorporated under the Business Corporations Act (Alberta) on March 6, 1998 and its shares are listed for trading on the TSX Venture Exchange under the symbol PMI. The address of the Company's registered and records office is Suite 3700 – 400 3rd Avenue SW, Calgary, Alberta, Canada T2P 4H2.

All currency references are to thousands of United States dollars ("USD") unless otherwise specifically indicated. References to "CAD \$" are to Canadian dollars. The purpose of this MD&A is to provide readers the ability to view PMI in much the same way as Company management. The following combination of historical and prospective information and financial and business analyses, together with the consolidated financial statements, are intended to impart useful knowledge to investors and other readers.

References in text or tables throughout this document to "2016" and "2015" refer to the years ended December 31, 2016 and 2015, respectively. References in text or tables labeled "Q4", "Q3", "Q2" and "Q1" refer to the three month periods ended December 31, September 30, June 30 and March 31, respectively, of the year indicated.

Additional information relating to the Company is available on SEDAR at [www.sedar.com](http://www.sedar.com).

## **Operational Highlights**

The Company suspended operations in Albania after the release of its drilling rig during the fourth quarter of 2014 and focused its efforts on a sale of its remaining interest in Blocks 2-3 in Albania. The process concluded on February 1, 2016, with the execution of a Sale and Purchase Agreement ("SPA") with Shell Upstream Albania B.V. ("Shell"), a wholly-owned subsidiary of Royal Dutch Shell plc, pursuant to which Shell agreed to acquire all of PMI's Albanian assets for aggregate gross proceeds of \$45.5 million, subject to closing adjustments (the "Transaction"). The Transaction closed on March 30, 2016 and final adjustments were agreed on May 2, 2016.

Following the determination of post-closing adjustments, PMI made a special distribution of CAD \$43 million to shareholders (the "Distribution"). The Distribution, which was approved by shareholders at the annual general meeting held on March 14, 2016, was a return of capital and was funded primarily from the net proceeds of the Transaction.

On June 14, 2016, the Company's common shares were consolidated on the basis of one post-consolidated share for every seventy pre-consolidated shares, and the name of the Company was changed to PMI Resources Ltd.

## **Company Overview**

PMI Resources Ltd. is an international oil and gas company which currently holds exploration assets in France. The Company is considered to be in the exploration and evaluation stage and has not earned any revenue from its operations to date. During the year ended December 31, 2016, the Company completed the sale of its Albanian assets.

In January 2017, the Company and PentaNova Energy Corp ("PentaNova") entered into an agreement pursuant to which the Company will acquire all of the issued and outstanding shares of PentaNova in consideration for shares of the Company on a one-for-one basis, through the merger of the Company's newly-created subsidiary, PMI Resources (BVI) Ltd. with PentaNova. After the completion of the agreement, the former shareholders of the

## **PMI RESOURCES LTD. (formerly Petromanas Energy Inc.)**

Management's Discussion and Analysis  
For the year ended December 31, 2016

---

Company will hold approximately 5% of the resulting issuer. Accordingly, PentaNova is considered to have acquired the Company with the agreement being accounted for as a reverse takeover of the Company by PentaNova shareholders (the "RTO").

In conjunction with the RTO, the Company completed a non-brokered financing of 9,561,000 subscription receipts, at a price of CAD \$0.50 per subscription receipt, for gross proceeds of CAD \$4.78 million. The subscription receipts were converted to one share of the resulting issuer on completion of the RTO.

In conjunction with the RTO, PentaNova completed a brokered private placement of CAD \$16.4 million and a non-brokered private placement of CAD \$23.82 million at a price of C\$0.50 per share, resulting in the issuance of 80,441,560 shares of PentaNova. In connection with the brokered private placement, PentaNova issued 6% broker warrants, being 1,968,000 broker warrants, with an exercise price of CAD \$0.50 and expiring on January 31, 2019. PentaNova will also pay a 6% commission.

PentaNova holds interests in three exploration assets located in Colombia: Maria Conchita Block, SN-9 Block and the Tiburon Block, which were acquired through a series of transactions in January and February 2017.

### **Albanian Licenses**

On March 30, 2016, of the Company closed the Transaction whereby the Company disposed of its 25% participating interest in the Block 2-3 PSC (including Operatorship) to Shell for gross proceeds of \$45.5 million. All funds have been received.

The Company in the process of ceasing its operations in Albania and therefore any expenditures related to Albania have been recorded as a part of discontinued operations.

### **France**

The Company holds the Ledoux and Ger Permits, located in the Aquitaine Basin of Southern France. PMI has re-processed and interpreted existing 2D seismic on the Ledoux Permit, as well as data from the Saucède-1 well which was drilled and produced by a third party in the late 1970s and early 1980s. The Company has identified four formation targets on Ledoux, while the remaining prospects on the Ledoux Permit require further data and/or technical evaluation.

The first exploration period of the Ledoux and Ger Permits expired in 2013 and PMI requested the renewal of both permits from the French government for a period of five years. Both renewals were approved on February 5, 2015 for a period of five years from their original expiry, and will be valid until August 8, 2018 and April 16, 2018, respectively. Under the terms of the license renewals, PMI would be required to spend 3 million Euros on the Ger permit and 8 million Euros on the Ledoux permit prior to their expiries in order to retain the permits for another exploration period.

During 2015 Company recorded impairments of \$10.3 million relating to both permits in France based on the current state of the industry, the Company's financial resources to unlock the potential of the asset, and reflecting management's estimated recoverable amount of the asset, under current industry conditions.

In February 2017, the Company entered into a share purchase agreement with Horizon Petroleum Ltd ("Horizon") whereby the Company will assign to Horizon its Luxembourg subsidiaries which hold the French assets. In

## **PMI RESOURCES LTD. (formerly Petromanas Energy Inc.)**

Management's Discussion and Analysis

For the year ended December 31, 2016

---

addition, the Company has agreed to invest CAD \$1.5 million into Horizon by way of a private placement of shares in the capital of Horizon at CAD \$0.02 per share, and Horizon will also assume the decommissioning obligations related to the French assets. The transaction is subject to regulatory and shareholder approvals.

As the Company has entered into a definitive agreement to sell its French activities, the decommissioning liabilities have been reclassified to liabilities held for sale as at December 31, 2016, and all expenditures have been classified as discontinued operations.

### **Australia**

In January, 2016, PMI elected to cease operations in Australia and submitted a letter to the Western Australian Department of Mines and Petroleum to relinquish its exploration and therefore any expenditures related to Australia have been recorded as a part of discontinued operations.

### **Outlook**

On March 30, 2016 the Company closed the sale of its 25% participating interest in the Block 2-3 PSC to Shell for gross proceeds of \$45.5 million. All funds have been received which allowed the Company to return capital to shareholders, wind down the Company's Albanian operations in an orderly manner and provide sufficient capital for the Company to reorganize itself.

The Company has entered into an agreement to sell its remaining assets at December 31, 2016 and entered into a reverse takeover agreement with PetraNova subsequent December 31, 2016. See "*Company Overview*" for more information.

### **Results of Operations**

The Company's operating expenses excluding the discontinued operations of Albania, Australia and France as stated above remain as continuing operations. Unless specifically noted, all current and comparative reporting periods' financial disclosure and discussion relates to continuing operations.

The Company recorded no revenues for the years ended December 31, 2016 and 2015.

*Operations for the years ended December 31, 2016 and 2015:*

The net loss for the year ended December 31, 2016 was \$4,795 (2015 - \$42,086), of which \$1,494 (2015 - \$39,221) related to discontinued operations. Significant changes to loss from continuing operations are explained below:

- General and administrative of \$3,207 (2015 - \$2,019) increased by \$1,188, primarily related to severance and other termination payments in relation to change in management;
- Share-based compensation of \$234 (2015 - \$176) increased by \$58 due to the valuation of the options granted during the year; and
- Depreciation of \$13 (2015 - \$65) decreased by \$52 due to impairment and full amortization of property and equipment on hand, in conjunction with the wind down and disposal of operations.

## PMI RESOURCES LTD. (formerly Petromanas Energy Inc.)

Management's Discussion and Analysis  
For the year ended December 31, 2016

*Operations for the three months ended December 31, 2016:*

The net loss for the three months ended December 31, 2016 was \$81 (2015 - \$11,744), of which \$87 (2015 – \$11,380) related to discontinued operations. Significant changes to loss from continuing operations is due to a reduction in operations and activities across the board as the Company sold its Albanian operations and wound down its Australian and French assets. The majority of operations were reclassified to discontinued operations as a result of these activities.

### Selected Annual Information

USD \$000's unless otherwise noted	2016**	2015**	2014
Total sales revenue	-	-	-
Net loss - continuing operations	(3,301)	(2,865)	(28,608)
Net loss	(4,795)	(42,086)	(28,098)
Loss per share (\$/share) - Basic and diluted:			
Continued operations*	(0.33)	(0.29)	(0.04)
Net loss*	(0.48)	(4.25)	(0.04)
Total assets	4,898	63,260	108,312
Non-current financial liabilities	-	-	407

\* Effective June 14, 2016, the Company's common shares were consolidated on the basis of one post-consolidated share for every seventy pre-consolidated shares. All common share, stock option, and per share amounts for the years ended 2016 and 2015 have been retrospectively restated to present post-consolidation amounts.

\*\* 2016 & 2015 have been reclassified for discontinued operations related to the France operations.

### Selected Quarterly Information

The following is a summary of selected financial information for the Company for the periods indicated. The Company currently has no revenue to offset its expenses. The Company's expenses are more fully described in "Results of Operations".

USD \$000's unless otherwise noted	2016**				2015			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Total revenue	-	-	-	-	-	-	-	-
Net loss - continuing operations	7	(245)	(1,313)	(1,750)	(364)	(469)	(419)	(1,613)
Net loss	(80)	(206)	(1,359)	(3,150)	(11,744)	(29,034)	(441)	(867)
Loss per share (\$/share) - Basic and diluted:								
Continued operations*	0.00	(0.02)	(0.13)	(0.18)	(0.04)	(0.90)	(0.04)	(0.16)
Net loss*	(0.00)	(0.02)	(0.14)	(0.32)	(1.18)	(2.93)	(0.04)	(0.09)

# PMI RESOURCES LTD. (formerly Petromanas Energy Inc.)

Management's Discussion and Analysis  
For the year ended December 31, 2016

---

\* Effective June 14, 2016, the Company's common shares were consolidated on the basis of one post-consolidated share for every seventy pre-consolidated shares. All common share, stock option, and per share amounts for the years ended 2016 and 2015 have been retrospectively restated to present post-consolidation amounts.

\*\* 2016 has been reclassified for discontinued operations related to the France operations

## Liquidity and Capital Resources

As of December 31, 2016, the Company had cash and cash equivalents of \$4,831 compared to \$11,466 as of December 31, 2015. During the year ended December 31, 2016, the Company received \$40,521 (2015 - \$2,132) from investing activities related to continuing operations, primarily due to proceeds on the sale of the Albania assets to Shell; the Company distributed \$43,463 to shareholders, resulting in \$43,463 (2015 - \$nil) cash flows used in financing activities related to continuing operations. The Company also had \$2,712 (2015 - \$2,615) in cash flows used in operations from continuing operations.

The Company has no off-balance sheet arrangements, bank debt or banking credit facilities in place.

## Outstanding Share Data

As at December 31, 2016, and the date of this report, there were 9,912,289 common shares issued and outstanding. Subsequent to December 31, 2016, the Company issued 9,561,000 subscription receipts which will convert into common shares of PMI on close of the transaction with PentaNova.

As at December 31, 2016, and the date of this report, there were 990,829 stock options outstanding.

## Related Party Transactions

Key management personnel include the Directors and Officers of the Company. Their compensation comprised the following:

(\$000's)	Year ended	
	2016	2015
Salaries and other short-term benefits	381	1,147
Severance	1,922	-
Share-based compensation	264	145
	<u>2,567</u>	<u>1,292</u>

## Proposed Transactions

The Company has entered into an agreement with PentaNova to complete an RTO. See "Company Overview" for more information.

## Critical Accounting Estimates

The Company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors,

## **PMI RESOURCES LTD. (formerly Petromanas Energy Inc.)**

Management's Discussion and Analysis

For the year ended December 31, 2016

---

including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive income in the period of the change, if the change affects that period only; or in the period of the change and future periods, if the change affects both.

Information about critical judgments in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the consolidated financial statements are discussed below:

a) Functional currency

The functional currency of each of the Company's entities is measured using the currency of the primary economic environment in which that entity operates. On March 31, 2016, based on management's evaluation, taking into consideration the closing of the Company's sale of all its Albanian assets (Note 8), the functional currency of the Canadian head office changed from the US dollar to the Canadian dollar. This change in accounting treatment is applied prospectively. The assets and liabilities of the Canadian head office were translated from US dollar to Canadian dollar at the exchange rate on the date of change in functional currency.

During the year ended December 31, 2016, the Company wound up its Australian and Albanian operations. As a result of ceasing these operations, the Company has reclassified the accumulated other comprehensive income associated with these entities to deficit.

b) Assets held for sale and discontinued operations

Judgement is required in determining whether an asset meets the criteria for classification as "assets held for sale" as well as the value at which to record the asset, as well as to the classification of income, expense and cash flows as from continuing or discontinued operations. Management considers the criteria of the classification as set out in the accounting policies and evaluates the assets for appropriate carrying value. The Company reviews the criteria for assets held for sale each quarter and reclassifies such assets to or from this financial position category as appropriate.

Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of assets and liabilities at the date of the consolidated financial statements and the reported amounts of expenses during the reporting periods. Actual results could differ from those estimates and such differences could be significant. Significant estimates made by management affecting our consolidated financial statements include:

a) Deferred tax assets and liabilities

The estimation of income taxes includes evaluating the recoverability of deferred tax assets based on an assessment of the Company's ability to utilize the underlying future tax deductions against future taxable income prior to expiry of those deductions. Management assesses whether it is probable that some or all of the deferred income tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income, which in turn is dependent upon the successful discovery, extraction, development and commercialization of oil and gas reserves. To the extent that management's assessment of the Company's ability to utilize future tax deductions changes, the Company would be required to recognize more or fewer deferred tax assets, and future income tax provisions or recoveries could be affected. The measurement of deferred income tax provision is

## **PMI RESOURCES LTD. (formerly Petromanas Energy Inc.)**

Management's Discussion and Analysis

For the year ended December 31, 2016

---

subject to uncertainty associated with the timing of future events and changes in legislation, tax rates and interpretations by tax authorities.

### b) Share-based compensation

Management is required to make certain estimates when determining the fair value of stock option awards, and the number of awards that are expected to vest. These estimates affect the amount recognized as share-based compensation in the consolidated statement of loss and comprehensive loss. Changes in the assumptions, such as volatility, expected life and dividend yield can materially affect the estimated fair value.

## **Recent Accounting Standards Not Yet Effective**

### Financial instruments

The IASB intends to replace IAS 39 – Financial Instruments: Recognition and Measurement in its entirety with IFRS 9 – Financial Instruments (“IFRS 9”) which will be effective for annual periods commencing on or after January 1, 2018. IFRS 9 is intended to reduce the complexity for the classification and measurement of financial instruments. The Company is currently evaluating the impact the final standard is expected to have on its consolidated financial statements.

### Revenue

The IASB issued IFRS 15 "Revenue from Contracts with Customers", which replaces IAS 18 "Revenue", IAS 11 "Construction Contracts", and related interpretations. The standard is required to be adopted either retrospectively or using a modified transition approach for fiscal years beginning on or after January 1, 2018, with earlier adoption permitted. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

## **Changes In Accounting Policies**

There were no new or amended accounting standards or interpretations adopted during the year ended December 31, 2016 that had a material impact on the consolidated financial statements.

## **Business Risks and Uncertainties**

The Company's business is subject to risks inherent in oil and gas exploration and development operations. In addition, there are risks associated with the current and future operations in foreign jurisdictions in which the Company's subsidiaries operate. The Company has identified certain risks pertinent to its business including:

- a) **Exploration and Reserve Risk** - Exploration, appraisal and development of oil and gas reserves are speculative and involve a significant degree of risk. There can be no assurances that exploration or appraisal of the properties in which the subsidiaries hold rights will be successful and that costs incurred will be recovered.
- b) **Drilling and Operating Risk** - Exploration and development activities may be delayed or adversely affected by factors beyond the control of the Company. These include adverse climate conditions, availability of materials and competent labor to perform services and compliance with current and future

## PMI RESOURCES LTD. (formerly Petromanas Energy Inc.)

Management's Discussion and Analysis

For the year ended December 31, 2016

---

government regulations. Drilling may result in dry holes or wells that do not produce sufficiently to justify commercial production. Delays in drilling from such conditions can increase drilling expenditures.

- c) **Environmental Risk** – The oil and gas industry is subject to extensive environmental regulations within the jurisdictions in which it operates. The Company regularly discusses environmental practices to ensure regulatory compliance is maintained. The Company believes it fully complies with existing regulations; however, it cannot predict any changes to existing regulations and the impact they could have on the Company.
- d) **Capital Markets and the Requirement for Additional Capital** - The Company's main source of financing has been through the capital markets. The Company currently has access to sufficient capital to finance its near-term future operations; however, there is no assurance that it will be able to obtain adequate financing in the future for longer term operations or that such financing will be on terms advantageous to the Company.
- e) **Economic, Political and Legal Risk** – The Company's exploration activities are in foreign jurisdictions and as such, may be subject to economic, social and/or political risks including, but not limited to, terrorism, revolution, hyperinflation, change of laws affecting existing programs or foreign ownership, government participation, taxation, profit repatriation, working conditions, exploration licensing and petroleum export licensing and export duties. Some of the jurisdictions in which the Company operates have a less developed legal system than jurisdictions with more established economies which may result in risks such as: (i) effective legal redress in the courts of such jurisdiction, whether in respect of a breach of law or regulation or in an ownership dispute, being more difficult to obtain; (ii) a higher degree of discretion on the part of governmental authorities; (iii) the lack of judicial or administrative guidance on interpreting applicable rules and regulations; (iv) inconsistencies or conflicts between various laws, regulations, decrees, orders and resolutions; or (v) relative inexperience of the judiciary and courts in such matters. There can be no assurance that joint ventures, licenses, license applications or other such legal arrangements will not be adversely affected by the actions of government authorities or others and the effectiveness and enforcement of such arrangements in this jurisdiction cannot be assured.
- f) **Market Risk** – In the event of successful development of oil and gas reserves, the marketing of the Company's subsidiaries' prospective production of oil and gas from such reserves will be dependent on market fluctuations and the availability of processing and refining facilities and transportation infrastructure, including roads, access to ports, shipping facilities, pipelines and the pipeline capacity at economic tariff rates which the Company's subsidiaries may have limited or no control.
- g) **Volatility of Future Oil and Gas Prices** - The demand for, and price of, oil and gas is highly dependent on a variety of factors beyond the control of the Company, such as international supply and demand, weather conditions, the price and availability of alternative fuels, actions taken by governments and international cartels, and global economic and political developments. International oil and gas prices have fluctuated widely in recent years and may continue similar patterns going forward. The changes in these commodity prices will have an effect on future earnings as well as impact future business decisions in determining what programs to proceed with. The Company has not entered into any forward contracts to protect itself from fluctuations in oil and gas prices as it has not had any production revenue to date.
- h) **Foreign Currency Risk** – The Company's operations are exposed to fluctuations in foreign currency exchange rates. Variations in the foreign currency exchange rates could have a significant positive or

## **PMI RESOURCES LTD. (formerly Petromanas Energy Inc.)**

Management's Discussion and Analysis

For the year ended December 31, 2016

---

negative impact. The Company manages its foreign currency exchange risk by maintaining foreign currency bank accounts and receivable accounts to offset foreign currency payables and planned expenditures. The Company does not engage in hedges to protect itself further from foreign currency exchange rate fluctuations.

### **Financial Instruments and Other Instruments**

#### ***Financial Risk Management***

The Company is exposed to a number of risks associated with its financial assets and liabilities. These risks include credit risk, liquidity risk, foreign exchange risk, fair value risk and interest rate risk. The Company has several practices and policies in place to help mitigate these risks.

The Company, as part of its operations, carries a number of financial instruments including cash and cash equivalents, receivables, accounts payable and accrued liabilities. The Company is exposed to the following risks related to its financial assets and liabilities:

*(a) Interest rate risk*

The Company maintains its cash and cash equivalents in instruments that are redeemable at any time without penalty, thereby reducing its exposure to interest rate fluctuations thereon.

*(b) Credit risk*

The Company's cash and cash equivalents are held with major financial institutions. Management monitors credit risk by reviewing the credit quality of the financial institutions that hold these financial assets.

*(c) Foreign currency risk*

The Company is exposed to risks arising from fluctuations in currency exchange rates between the Canadian dollar, Euro and the United States dollar. At December 31, 2016 the Company's net United States dollar exposure was (\$38).

For the year ended December 31, 2016, based on the net foreign exchange exposure at the end of the periods, if the Canadian dollar had strengthened or weakened by 10% compared to the US dollar and all other variables were held constant, there would have been a net after tax impact of \$4 on an annualized basis (2015: \$44).

*(d) Liquidity risk*

The Company monitors its liquidity position regularly to assess whether it has the resources necessary to fund planned exploration commitments on its exploration and evaluation assets or that viable options are available to fund such commitments from new equity issuances or alternative sources of financing such as farm-out agreements. However, as an exploration company at an early stage of development and without significant internally generated cash flow, there are inherent liquidity risks, including the possibility that additional financing may not be available to the Company, or that actual exploration expenditures may exceed those planned. Alternatives available to the Company to manage its liquidity risk include deferring planned capital expenditures that exceed amounts required by work programs to retain concession licenses, farm-out arrangements and securing new equity or debt capital. Amounts in accounts payable and accrued liabilities are due on demand and the derivative financial liability will not be settled in cash.

## **PMI RESOURCES LTD. (formerly Petromanas Energy Inc.)**

Management's Discussion and Analysis

For the year ended December 31, 2016

---

### *(e) Fair value risk*

Financial instruments that are measured subsequent to initial recognition at fair value are grouped in Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 – quoted prices in active markets for identical assets or liabilities.
- Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e.: as prices) or indirectly (i.e.: derived from prices).
- Level 3 – inputs for the asset or liability that are not based on observable market data.

All of the Company's financial instruments approximate their fair value as at December 31, 2016 due to their short term nature.

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

In connection with National Instrument ("NI") 52-109 (Certification of Disclosure in Issuer's Annual and Interim Filings) adopted in December 2008 by each of the securities commissions across Canada, the Chief Executive Officer and Chief Financial Officer of the Company will file a Venture Issuer Basic Certificate with respect to the financial information contained in the interim consolidated financial statements and the audited annual financial statements and respective accompanying Management's Discussion and Analysis.

The Venture Issuer Basic Certification does not include representations relating to the establishment and maintenance of disclosure controls and procedures and internal control over financial reporting, as defined in NI 52-109.