PMI RESOURCES LTD.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED

March 31, 2017 and 2016

(Unaudited)

PMI RESOURCES LTD.

Condensed Interim Consolidated Statements of Financial Position

Expressed in ‘000s US Dollars, except per share amounts

(Unaudited)

As at

	March 31, 2017	December 31, 2016
ASSETS		
Current		
Cash and cash equivalents	**4,618**	4,831
Restricted cash (Note 4)	**3,237**	-
Receivables and prepaid expenses	**81**	67
	7,936	4,898
LIABILITIES		
Current		
Accounts payable and accrued liabilities	**117**	75
Liabilities associated with assets held for sale (Note 3)	**1,709**	1,688
	1,826	1,763
SHAREHOLDERS' EQUITY		
Share capital (Note 4)	**108,836**	108,836
Subscription receipts	**3,218**	-
Contributed surplus	**11,388**	11,388
Deficit	**(114,361)**	(114,400)
Accumulated other comprehensive loss	**(2,971)**	(2,689)
	6,110	3,135
	7,936	4,898

Commitments and contingencies (Note 8)

Subsequent events (Note 10)

PMI RESOURCES LTD.

Condensed Interim Consolidated Statements of Comprehensive Loss

Expressed in ‘000s US Dollars, except per share amounts

(Unaudited)

For the three months ended March 31, 2017 and 2016

	Three months ended March 31	
	2017	2016
Expenses		
General and administrative	**105**	1,761
Share-based payments	**-**	19
Depreciation	**-**	13
	105	1,793
Finance expense (income)		
Foreign exchange gain	**(258)**	(56)
Interest and other income	**-**	(3)
Finance charges	**1**	16
	(257)	(43)
Income (loss) from continuing operations	**152**	(1,750)
Loss from discontinued operations (Note 6)	**(113)**	(1,400)
Net income (loss)	**39**	(3,150)
Other comprehensive gain (loss)		
Foreign currency translation adjustment	**(282)**	(46)
Reclassification of foreign currency translation adjustment on disposal of subsidiary	**-**	478
Comprehensive loss	**(243)**	(2,718)
Weighted average number of common shares outstanding - basic (Note 7)	19,473,289	9,912,289
Weighted average number of common shares outstanding - diluted (Note 7)	20,222,075	9,912,289
Basic income (loss) per share		
Continuing operations	**0.02**	(0.18)
Discontinued operations	**(0.01)**	(0.14)
Net income (loss)	**-**	(0.32)
Diluted income (loss) per share		
Continuing operations	**0.01**	(0.18)
Discontinued operations	**(0.01)**	(0.14)
Net income (loss)	**-**	(0.32)

PMI RESOURCES LTD.

Condensed Interim Consolidated Statements of Changes in Shareholders' Equity
Expressed in '000s US Dollars
(Unaudited)
For the three months March 31, 2017 and 2016

	Number of shares	Share capital	Subscription receipts	Contributed surplus	Deficit	AOCL [1]	Total
Balance at January 1, 2016	9,912,289	152,299	-	11,161	(109,605)	(3,111)	50,744
Loss from continuing operations	-	-	-	-	(1,750)	-	(1,750)
Loss from discontinued operations	-	-	-	-	(1,400)	478	(922)
Share-based compensation	-	-	-	12	-	-	12
Foreign currency translation adjustment	-	-	-	-	-	(46)	(46)
March 31, 2016	9,912,289	152,299	-	11,173	(112,755)	(2,679)	48,038
Return of share capital	-	(43,463)	-	-		-	(43,463)
Loss from continuing operations	-	-	-	-	(1,551)	-	(1,551)
Loss from discontinued operations	-	-	-	-	(94)	-	(94)
Share-based compensation	-	-	-	215	-	-	215
Foreign currency translation adjustment	-	-	-	-	-	(10)	(10)
December 31, 2016	9,912,289	108,836	-	11,388	(114,400)	(2,689)	3,135
Balance at January 1, 2017	9,912,289	108,836	-	11,388	(114,400)	(2,689)	3,135
Income from continuing operations	-	-	-	-	152	-	152
Loss from discontinued operations	-	-	-	-	(113)	-	(113)
Subscription receipt offering, net of expenses	-	-	3,218	-	-	-	3,218
Foreign currency translation adjustment	-	-	-	-	-	(282)	(282)
March 31, 2017	9,912,289	108,836	3,218	11,388	(114,361)	(2,971)	6,110

(1) Accumulated other comprehensive loss

PMI RESOURCES LTD.

Condensed Interim Consolidated Statements of Cash Flows

Expressed in ‘000s US Dollars

(Unaudited)

For the three months ended March 31, 2017 and 2016

	March 31, 2017	March 31, 2016
OPERATING ACTIVITIES		
Income (loss) from continuing operations	**152**	(1,750)
Adjustments:		
Unrealized foreign exchange (gain) loss	**(334)**	1
Depreciation	**-**	13
Share-based compensation	**-**	19
Changes in non-cash working capital balances:		
Receivables and prepaid expenses	**(14)**	21
Accounts payable and accrued liabilities	**42**	46
Continuing operations	**(154)**	(1,650)
Discontinued operations	**(92)**	(978)
Cash flows used in operating activities	**(246)**	(2,628)
INVESTING ACTIVITIES		
Increase in restricted cash	**(3,237)**	-
Subscription receipt costs, net of costs (Note 4)	**3,218**	-
Continuing operations	**(19)**	-
Discontinued operations	**-**	32,046
Cash flows (uesd in) from investing activities	**(19)**	32,046
Change in cash and cash equivalents during the period		
Continuing operations	**(173)**	(1,650)
Discontinued operations	**(92)**	31,068
Foreign exchange on cash and cash equivalents held in foreign currencies	**52**	(1)
Cash and cash equivalents, beginning of period	**4,831**	11,466
Cash and cash equivalents, end of period	**4,618**	40,883

Expressed in '000s US Dollars

1. REPORTING ENTITY

The Company is an exploration stage company engaged in the acquisition, exploration and evaluation, development and production of oil and gas properties. On April 4, 2017, the Company completed a reverse acquisition with PentaNova Energy Corp ("PentaNova"), whereby the shareholders of PentaNova now control the Company (Note 10). PentaNova owns certain exploration and development assets in Colombia. The Company was originally incorporated under the Business Corporations Act (Alberta) on March 6, 1998 and is publically traded. On June 14, 2016, the Company changed its name to PMI Resources Ltd. The address of the Company's registered and records office is Suite 3700 – 400 3rd Avenue SW, Calgary, Alberta, Canada T2P 4H2.

2. BASIS OF PREPARATION

Statement of compliance

These unaudited condensed interim consolidated financial statements have been prepared by management and reported in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting". These unaudited condensed interim consolidated financial statements follow the same accounting policies and methods of computation as outlined in Note 3 of the Company's consolidated financial statements for the year ended December 31, 2016. These unaudited condensed interim consolidated financial statements do not include all of the information required for full annual financial statements.

These unaudited condensed interim consolidated financial statements were authorized for issue by the Company's Board of Directors on May 26, 2017.

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 3), 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.

3. ASSETS HELD FOR SALE

On March 30, 2016, the Company closed its Sale and Purchase Agreement with Shell and sold all of its Albanian assets for aggregate gross proceeds of $45,533 subject to additional adjustment of the final settlement statement (the "Transaction").

During the period ended March 31, 2017, the Company also entered into an agreement to sell its French assets (Note 6) – accordingly all assets and liabilities related to the French assets at March 31, 2017 have been reclassified to assets and liabilities held for sale.

Liabilities associated with assets held for sale	
Balance at December 31, 2016	1,688
Foreign currency translation	21
Balance at March 31, 2017	**1,709**

4. SHARE CAPITAL

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. All common share, stock option, and per share amounts in these unaudited interim consolidated financial statements have been retrospectively restated to present post-consolidation amounts.

Expressed in 000s US Dollars

4. SHARE CAPITAL (CONTINUED)

Authorized

Unlimited number of common voting and preferred shares with no par value.
Unlimited number of preferred shares with no par value

Return of Capital

On June 7, 2016, in conjunction with the Transaction the Company made a special distribution of $43 million to its shareholders (the "Distribution"). The Distribution was a return of capital and was funded primarily from the net proceeds of the Transaction but also included approximately $3.0 million of working capital.

Subscription Receipts

In conjunction with the transaction with PentaNova, the Company completed a financing of 9,561,000 subscription receipts, at a price of C$0.50 per subscription receipt, for gross proceeds of C$4.78 million ($3,237). The proceeds from this financing were held in escrow until the completion of the share exchange with PentaNova, and accordingly, the funds have been presented as restricted cash. In connection with this financing, the Company incurred costs of $19. The subscription receipts were converted to a common share of the resulting issuer on completion of the transaction on April 4, 2017 (Note 10).

5. SHARE-BASED PAYMENTS

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

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

The number and weighted average exercise prices of stock options outstanding for the period are as follows:

	Three months ended March 31, 2017		Year ended December 31, 2016	
	Options	Weighted average exercise price CAD	Options	Weighted average exercise price CAD
Outstanding, beginning of period	990,829	0.81	566,762	18.90
Granted	-		975,000	0.61
Expired	-		(550,933)	18.84
Outstanding, end of period	**990,829**	**0.81**	**990,829**	**0.81**

5. SHARE-BASED PAYMENTS (CONTINUED)

Stock options outstanding and exercisable at March 31, 2017 are as follows:

Outstanding	Exercisable	Exercise price CAD	Year of expiry
755,000	755,000	0.61	2026
220,000	220,000	0.61	2018
2,142	2,142	12.6	2017
4,760	4,760	10.5	2017
7,142	7,142	12.6	2019
1,785	1,785	21.0	2020
990,829	990,829		

6. DISCONTINUED OPERATIONS

Pursuant to a share purchase agreement dated February 2017, the Company and Horizon Petroleum Ltd. ("Horizon") agreed to the assignment by the Company to Horizon of its two Luxembourg subsidiaries which hold a 100% working interest in certain licenses in France. The Company will also invest C$1.5 million into Horizon, by way of a private placement on completion of the assignment at C$0.12 per share (post-consolidation). In conjunction with the assignment, Horizon will assume the decommissioning obligations included in liabilities held for sale. This transaction will close on receipt of all necessary approvals, and accordingly, all operations related to France have been included in discontinued operations.

During the three months ended March 31, 2017 the Company continued to wind down its operations in Albania pursuant to the Transaction and as such has reclassified its entire Albanian segment to discontinued operations. Discontinued operations for the 2016 period also include Australia which was wound up as of December 31, 2016.

Income and expenses allocated to the net loss from discontinued operations are as follows:

($000's)	March 31, 2017	March 31, 2016
General and administrative	113	334
Impairment	-	584
Finance charges	-	3
Foreign exchange loss	-	1
Other comprehensive loss reclassification	-	478
Net loss relating to discontinued operations	113	1,400

Expressed in 000s US Dollars

7. PER SHARE AMOUNTS

The following table summarizes the calculation of basic and diluted weighted average number of common shares for the period ended March 31:

	2017	2016
Weighted average number of shares outstanding - basic	19,473,289	19,473,289
Impact of dilutive stock options	748,786	-
Weighted average number of shares outstanding - diluted	20,222,075	19,473,289

Basic weighted average number of shares outstanding assumes conversion of the subscription receipts, which are considered contingently issuable shares that were issued subsequent to March 31, 2017. Excluded from diluted earnings per share for the three months ended March 31, 2017 is the effect of 15,829 options (2016 559,620) as their effect is anti-dilutive.

8. COMMITMENTS AND CONTINGENCIES

License agreements held by Petromanas Energy France

The Ledeiux and Ger Permits renewals were approved on February 5, 2015 for a period of five years from their original expiry, being August 8, 2018 and April 16, 2018, respectively. Under the terms of the license renewals, Petromanas would be required to spend 3 million Euros on the Ger permit and 8 million Euros on the Ledeuix permit prior to their expiry in order to move to the next exploration phase. These commitments will also be assumed by Horizon upon completion of the sale (Note 6).

In addition, pursuant to the Company's agreement with Horizon (Note 6), the Company has committed to investing C$1.5 million into Horizon, by way of a private placement on completion of the assignment at C$0.12 per share.

9. 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, 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:

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.

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.

9. FINANCIAL RISK MANAGEMENT (CONTINUED)

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 March 31, 2017 the Company's net Canadian dollar exposure was $3.4 million.

For the period ended March 31, 2017, based on the net foreign exchange exposure at the end of the period, 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 an impact of $462.

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. Amounts in accounts payable and accrued liabilities are due on demand.

10. SUBSEQUENT EVENTS

In April 2017, the Company and PentaNova completed the Company's acquisition of PentaNova through a plan of arrangement whereby the Company acquired all of the issued and outstanding shares of PentaNova, being 161,641,560 in consideration for shares of PMI on a one-for-one basis. PentaNova also had 1,968,000 warrants outstanding which were exchanged for 1,968,000 warrants of the Company with an exercise price of C$0.50 per share and an expiry date of January 31, 2019. An additional 1,600,000 shares of the Company were issued as advisory fees for the transaction.

In conjunction with this acquisition, the proceeds from the Company's subscription receipts were converted into 9,561,000 shares of the Company and the funds of C$4.78 million were released from escrow. Concurrently with the Company's financing, PentaNova completed private placements of C$40.22 million at a price of C$0.50 per share, resulting in the issuance of 80,441,560 common shares of PentaNova that were included in the shares subsequently exchanged for shares of the Company.

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

In February 2017, the Company entered into an option agreement with Blue Pacific Assets Corp. to acquire 100% of the outstanding shares of Patagonia Oil Corp ("Patagonia"), a company incorporated and existing under the laws of the British Virgin Islands. The option agreement is exercisable upon several conditions, including completion of a share purchase agreement. Patagonia is a private company focused on oil and gas plays in Argentina and has entered into binding agreements to acquire certain oil and gas exploration, development and producing assets in Argentina. The total aggregate purchase price for the acquisitions consist of up front purchase price of $104.6 million, additional payments to be made out of production revenues of $12 million and a commitment to complete a work program of $54 million over three years.

The Company has entered into engagement agreements with three agents to facilitate a private placement by the Company of up to $200 million of subscription receipts; the final pricing of the subscription receipts is not yet determined. Each subscription receipt, subject to the satisfaction of certain escrow release conditions and on completion of the Patagonia acquisition, will automatically convert into a unit of the Company, consisting of one common share and one-half share purchase warrant. Each full warrant will entitle the holder to acquire an additional share at a price of C$1.31 for a period five years from closing of the private placement.