PENTANOVA ENERGY CORP.

(formerly PMI Resources Ltd.)

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2018

PENTANOVA ENERGY CORP.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Unaudited, expressed in U.S. Dollars)	**March 31, 2018**	December 31, 2017
Assets		
Current Assets		
Cash and cash equivalents	**10,387,628**	8,962,371
Accounts receivable and prepaids (Note 8)	**3,812,468**	3,956,243
Inventory	**347,628**	966,818
Assets held for sale (Note 13)	**570,066**	683,539
Restricted cash (Note 7)	**4,423,440**	11,732,933
	19,541,230	26,703,920
Non-current Assets		
Exploration and evaluation assets (Note 9)	**77,040,381**	67,609,348
Property, plant and equipment (Note 10)	**3,671,361**	4,283,111
Total Assets	**100,252,972**	98,596,379
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities (Note 8)	**20,085,344**	16,585,780
Cash calls assumed on acquisition (Note 6)	**7,953,716**	8,186,280
	28,039,060	24,772,060
Non-current Liabilities		
Deferred tax liability	**3,735,786**	3,831,850
Decommissioning obligation	**5,260,226**	4,935,874
Total Liabilities	**37,035,072**	33,539,784
Shareholders' Equity		
Share capital (Note 11)	**63,799,393**	63,799,393
Contributed surplus (Note 11)	**6,085,073**	5,900,862
Warrants (Note 11)	**10,201,910**	10,201,910
Deficit	**(16,509,359)**	(14,533,961)
Accumulated other comprehensive loss	**(359,117)**	(311,609)
Total Shareholders' Equity	**63,217,900**	65,056,595
Total Liabilities and Shareholders' Equity	**100,252,972**	98,596,379

Commitments (Note 15)

Subsequent Events (Note 19)

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 months ended March 31

(Unaudited, expressed in U.S. Dollars)	**2018**	2017
Revenue:		
Oil and natural gas revenue	**2,270,243**	-
Net revenue on carried working interest	**351,606**	-
Royalty expense	**(446,478)**	-
	2,175,371	-
Expenses:		
Operating expenses	**1,400,808**	-
Inventory revaluation	**186,729**	-
General and administrative	**1,705,835**	320,148
Business development	**89,803**	1,267,021
Share based payments (Note 11)	**160,284**	-
Depletion and depreciation (Note 10)	**642,430**	2,893
Finance (Note 12)	**47,842**	-
Foreign exchange loss/(gain)	**(99,629)**	440,381
Loss on revaluation of asset held for sale (Note 13)	**96,895**	-
	4,230,997	2,030,443
Loss before income taxes	**(2,055,626)**	(2,030,443)
Current income tax recovery	**96,064**	-
Loss from continuing operations	**(1,959,562)**	(2,030,443)
Loss from discontinued operations	**(15,836)**	-
Net loss	**(1,975,398)**	(2,030,443)
Other comprehensive loss		
Foreign currency translation adjustment	**(47,508)**	-
	(47,508)	-
Comprehensive loss	**(2,022,906)**	**(2,030,443)**
Loss per share – basic and diluted (Note 11)	**(0.01)**	(0.01)
Weighted average number of common Shares outstanding	**242,201,602**	161,641,560

See accompanying notes to the interim condensed consolidated financial statements.

PENTANOVA ENERGY CORP.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the three months ended March 31

(Unaudited, expressed in U.S. Dollars)	**2018**	2017
Operating Activities		
Net loss from continuing operations	**(1,959,562)**	(2,030,443)
Items not affecting cash:		
Depletion and depreciation (Note 10)	**642,430**	2,893
Share based payments (Note 11)	**160,284**	-
Unrealized foreign exchange loss	**138,203**	460,706
Shares issued for services rendered (Note 11)	**-**	449,136
Loss on revaluation of assets held for sale (Note 13)	**96,895**	-
Accretion on decommissioning obligations (Note 12)	**28,345**	-
Current income tax recovery	**(96,064)**	-
Change in non-cash working capital (Note 17)	**578,626**	575,801
Cash used in operating activities	**(410,843)**	(541,907)
Investing Activities		
Cash payments on Maria Conchita Acquisition, net of cash acquired (Note 6)	**(2,125,000)**	(748,295)
Cash payments on SN-9 Acquisition (Note 6)	**-**	(1,650,000)
Cash payments on Tiburon Acquisition (Note 6)	**-**	(250,000)
Exploration and evaluation asset additions (Note 9)	**(9,111,099)**	(97,635)
Property, plant and equipment additions (Note 10)	**(30,680)**	-
Acquisition of Bolivar, net of cash acquired (Note 6)	**-**	(48,929)
Change in restricted cash (Note 7)	**7,309,493**	(1,750,000)
Change in non-cash working capital (Note 17)	**5,793,067**	(2,288,409)
Cash used in investing activities	**1,835,781**	(6,833,268)
Financing Activities		
Shares issued, net of costs (Note 11)	**-**	29,451,348
Change in non-cash working capital (Note 17)	**-**	300,000
Cash provided by financing activities	**-**	29,751,348
Net increase in cash	**1,424,938**	22,376,173
Foreign exchange gain on cash	**319**	(296,876)
Increase in cash	**1,425,257**	22,079,297
Cash, beginning of period	**8,962,371**	-
Cash, end of period	**10,387,628**	22,079,297

Cash is defined as cash and cash equivalents.

See accompanying notes to the interim condensed consolidated financial statements.

PENTANOVA ENERGY CORP.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Unaudited, expressed in U.S. Dollars)	Number of Common Shares	Share Capital	Contributed Surplus	Warrants	Deficit	AOCL[1]	Total
Balance at December 31, 2016	**50,000**	**-**	**-**	**-**	**(526,784)**	**-**	**(526,784)**
Shares redeemed (Note 11)	(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 11)	-	(308,866)	308,866	-	-	-	-
Shares issued to consultant (Note 11)	1,200,000	449,136	-	-	-	-	449,136
Loss from continuing operations	-	-	-	-	(2,030,443)	-	(2,030,443)
Balance at March 31, 2017	**161,641,560**	**29,755,448**	**308,866**	**-**	**(2,557,227)**	**-**	**27,507,087**

	Number of Common Shares	Share Capital	Contributed Surplus	Warrants	Deficit	AOCL[1]	Total
Balance at December 31, 2017	**242,201,602**	**63,799,393**	**5,900,862**	**10,201,910**	**(14,533,961)**	**(311,609)**	**65,056,595**
Loss from continuing operations	-	-	-	-	(1,959,562)	-	(1,959,562)
Loss from discontinued operations	-	-	-	-	(15,836)		(15,836)
Foreign currency translation adjustment	-	-	-	-	-	(47,508)	(47,508)
Share based compensation (Note 11)	-	-	184,211	-	-	-	184,211
Balance at March 31, 2018	**242,201,602**	**63,799,393**	**6,085,073**	**10,201,910**	**(16,509,359)**	**(359,117)**	**63,217,900**

(1) Accumulated other comprehensive loss

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 25th Floor, 700 West Georgia Street, Vancouver, British Columbia, Canada V7Y 1B3. PentaNova's common shares are listed on the TSX Venture Exchange ("TSX-V") under the symbol "PNO".

2. GOING CONCERN

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

During the three months ended March 31, 2018, the Company incurred a loss from continuing operations of $2.0 million and used $0.4 million of cash flow in its operating activities. As at March 31, 2018 the Company had a working capital deficiency of $8.5 million there is material uncertainty as to the future operating ability of the Company as it will be contingent upon the Company's ability to successfully identify and procure necessary capital.

As mentioned above, the Company has contractually committed exploration and development amounts as outlined in Note 15. These commitments could leave the Company potentially cash deficient, depending on the outcome of the Company's ongoing operations. As a result, these conditions may raise significant doubt about the Company's ability to continue as a going concern.

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

3. BASIS OF PRESENTATION

Statement of compliance

These 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 follow the same accounting policies and method of computation as the Company's annual audited consolidated financial statements for the year ended December 31, 2017, with the exception of certain disclosures that are normally required to be included in annual consolidated financial statements which have been condensed or omitted. These interim condensed consolidated financial statements should be read in conjunction with the Company's annual audited consolidated financial statements for the year ended December 31, 2017.

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 May 23, 2018.

Significant accounting policies

The Company's significant accounting policies can be read in Note 4 to the Company's annual audited consolidated financial statements as at and for the year ended December 31, 2017.

New standards and interpretations adopted on January 1, 2018

IFRS 9: Financial Instruments

On January 1, 2018, the Company adopted IFRS 9 "Financial Instruments", which includes a principle-based approach for classification and measurement of financial assets and a forward-looking 'expected credit loss' model. IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income ("FVOCI"); or fair value through profit or loss ("FVTPL"). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. The classification and measurement of financial instruments under IFRS 9 did not have a material impact on the Company's consolidated financial statements.

Impairment of financial assets under IFRS 9 replaces the "incurred loss" model in IAS 39 with an "expected credit loss" model. The new impairment model applies to financial assets measured at amortized cost, and contract assets and debt investments at FVOCI. Under IFRS 9, credit losses are recognized earlier than under IAS 39. The application of the expected credit loss model to financial assets classified as amortized cost did not result in a material adjustment on transition.

IFRS 9 was applied retrospectively in accordance with transition requirements with no impact to opening retained earnings or comparative periods. Cash and cash equivalents and trade and other receivables continue to be measured at amortized cost and are now classified as "amortized cost". Short term investments continue to be measured at fair value and are now classified as "FVTPL". The Corporation's financial liabilities previously classified as "other financial liabilities" being trade and other payables and cash calls payable continue to be measured at amortized cost and are now classified as "amortized cost". The Corporation has not designated any financial instruments as FVOCI, nor does the Corporation use hedge accounting.

IFRS 15: Revenue from Contracts with Customers

The Company adopted IFRS 15 "Revenue from Contracts with Customers" effective January 1, 2018, which establishes a comprehensive framework for determining whether, how much, and when revenue from contracts with customers is recognized. The Company's revenue relates to the sale of petroleum and natural gas to customers at specified delivery points at benchmark prices. The Company adopted IFRS 15 using the modified retrospective approach to contracts that were not completed at the date of initial application. Under this transitional provision, the cumulative effect of initially applying IFRS 15 is recognized on the date of initial application as an adjustment to retained earnings. No adjustment to retained earnings was required upon adoption of IFRS 15. The adoption of IFRS 15 did not materially impact the timing or measurement of revenue. However, IFRS 15 contains new disclosure requirements.

In addition, as a result of this adoption, the Company has revised the description of its accounting policy for revenue recognition. Revenue from contracts with customers is recognized when or as the Company satisfies a performance obligation by transferring a promised good or service to a customer. The transfer of control of oil, natural gas, natural gas liquids usually occurs at a point in time and coincides with title passing to the customer and the customer taking physical possession. The transaction price for variable price contracts is based on the commodity price, adjusted for quality, location and other factors. The amount of revenue recognized is based on the agreed transaction price with any variability in transaction price recognized in the same period. 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.

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.

IFRS 16: Leases

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

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:

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

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 (the "Maria Conchita Acquisition") under the Exploration and Production ("E&P") Contract with the National Hydrocarbon Agency (the "ANH"). This acquisition was completed through the purchase of all of the issued and outstanding shares of the corporation Bochica Investment Holdings Ltd. ("Bochica") and certain other subsidiaries. The Company acquired the 40% working interest currently held through the Bochica subsidiary as well as the rights to acquire the other 60% beneficial working interest, as specified below. Under the definitive agreement, the Company agreed to the following terms:

a) pay cash consideration of $1 million to the sellers as a condition of the definitive agreement. Of the $1 million, $0.75 million was paid in 2017 and $0.13 million of the remaining $0.25 million was paid in the three months ended March 31, 2018 upon the spudding of the first well. The outstanding amount has been included in accounts payable as of March 31, 2018 (see Note 8).
b) retention by the sellers of a 20% retained beneficial working interest and carry of the sellers' beneficial interest for costs incurred for the drilling of three new wells, the re-entry and workover of 2 existing wells, the construction and provision of a gas pipeline and connecting flowlines framework to connect block production fields to the Colombian transportation network, and the construction and provision of a gas plant to process the gas produced in the block to commercial conditions.
c) pay consideration of $1.5 million to the sellers to be paid out of the Company's portion of net operating revenue generated from future commercial production on the Maria Conchita Block.
d) assumption of all rights and obligations under the Master Sales and Purchase Agreement ("MSPA") with the Turkish Petroleum International Company ("TPIC "), whereby the seller was to acquire 100% beneficial working interest and operatorship in the Maria Conchita Block E&P Contract. The remaining obligations assumed by the Company under the MSPA included:

    i. present a letter of credit in favor of TPIC for $9,000,000 as security for the performance of the first well under the MSPA.
    ii. acquire the TPIC 51% beneficial working interest and operatorship for $2,000,000. This amount was paid in the three months ended March 31, 2018.
    iii. acquire the 9% beneficial working interest and net profit interest held in the Maria Conchita Block from another third party contractual partner in the block for $500,000. This working interest was acquired and the consideration paid in 2017.

iv. pay to TPIC certain operational expenses in the amount of $666,489. This amount was paid in 2017.
v. acknowledge and comply with the existing overriding royalty agreements previously executed between TPIC, the seller, and other existing third-party partners in the Maria Conchita Block E&P Contract.

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

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 were to be released back to the Company when 1) the first well is drilled to fulfill current phase commitments and a second well is commenced, or 2) the Company obtains operator status of the Maria Conchita Block under the E&P Contract with the ANH. As mentioned previously, this amount was deposited into escrow in 2017. However, this deposit was subsequently released back to the Company in March 2018, as described further below.
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 was to fulfill the current phase commitment. This amount was deposited into escrow in 2017. However, the majority of the balance of the account was released back to the Company in March 2018, as described further below.
c) the reduction of $0.6 million of payable amounts owed by one of Bochica's subsidiaries to TPIC prior to the acquisition of Bochica by the Company relating to past operations on the Maria Conchita Block. This reduction in payables is reflected as an adjustment in the allocation of consideration paid pursuant to this acquisition.
d) the establishment of one of the Company's subsidiaries as the contractor that will procure and coordinate services necessary for the drilling of the first well under the MSPA.

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

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

In February 2018, the ANH approved the transfer of operatorship of the Maria Conchita block from TPIC to one of the subsidiaries of the Company. As a result, the aforementioned $1.75 million deposit in escrow held as a performance guarantee and the balance of the $9.0 million deposit in escrow to fund the drilling of the first well (less a balance of $0.6 million maintained in escrow while formalization of the transfer is completed) were released back to the Company in March 2018. The balance of $0.6 million remaining in escrow as of March 31, 2018 is accounted for as restricted cash.

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) as an asset acquisition. The Company agreed to the following terms with the sellers:

a) pay cash consideration of $2.5 million to the sellers within the first six months following the execution of the definitive agreement, which was paid to the seller in 2017.
b) reimburse $4 million of past costs to one of the sellers to be paid out of the Company's portion of net operating revenue generated from future commercial production on the SN-9 Block. Under the terms of the SN-9 Strategic Farmout agreement outlined below, these past costs are to be split with PentaNova paying half and Panacol Oil and Gas paying the other half.
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. Under the terms of the SN-9 Strategic Farmout agreement outlined below, the operating revenue owed is to be split with PentaNova paying half and Panacol Oil and Gas paying the other half.
d) grant an overriding royalty interest of 5% on the Company's net beneficial interest to the sellers on future commercial production on the SN-9 Block.

SN-9 Strategic Farm-out

In October 2017, PentaNova and AOG entered into a Letter of Intent outlining the terms and conditions for the Farm-in by AOG on PentaNova´s beneficial working interest held in the SN-9 block. To complete the agreement, AOG will farm-in for half of the Company´s 80% beneficial working interest, by way of replacing the $2.5 million guarantee required by the ANH license, as well as funding 100% of the Phase I minimum exploration work program under the ANH contract, equivalent to $22 million. PentaNova shall reimburse 50% of the funds invested by AOG in the Phase I activities from 70% of PentaNova´s net production. The $2.5 million has been provided to replace the guarantee required by the ANH and will be reimbursed to AOG when the guarantee is released by the ANH upon fulfillment of Phase I minimum exploration work program commitments. Further capital commitments will be assumed proportionally by the partners. The remaining 20% working interest on the block is held by other third-party partners. Finalization of a definitive agreement regarding this farm-in with AOG are still ongoing.

As per the Assignment Agreement, signed in April 2018, between AOG and Latam Oil and Gas Corp.(“Latam”) and approved by PenaNova, the two companies agreed to assign all rights and obligations as outlined in the LOI to Latam. The LOI was then reassigned to Latam’s 100% owned subsidiary, Panacol Oil and Gas.

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) as an asset acquisition. The Company agreed to the following terms with the seller:

a) pay cash consideration of $0.25 million to the seller following the execution of the definitive agreement. This amount was paid in 2017.
b) Upon commencement of commercial production, pay consideration of $8.54 million out of the Company’s portion of net operating revenue on the Tiburon Block.
c) pay a success fee to the seller of $1.5 million upon reaching proven reserves of gas of 800 billion cubic feet (“bcf”) and pay an additional $1.5 million for each increment of 500 bcf of proven reserves of natural gas beyond the initial 800 bcf of proven reserves that are assessed over the life of the E&P Contract. These reserves will be based on independent reserves reports by a qualified reserves evaluator, the first of which will be prepared within six months from first commercial production within the Tiburon Block.

Bolivar Energy

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

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

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

Patagonia Oil Corp.

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

In conjunction with the acquisition of Patagonia, 1,065,000 shares were issued with an associated value of $426,000 as payment for success fees. These shares were issued to third parties with common management and/or directors with the Company.

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

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

Alianza Petrolera Argentina S.A.

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

a) Pay $1 million in cash consideration upon execution of the definitive agreement, which was paid by the Company in 2017.
b) Pay $2 million in cash consideration at the closing of the definitive agreement, which was released from escrow to the seller in 2017.
c) Assumption of the balance of the YPF Cash Calls, which has been represented to be $5.0 million. This amount was included in "Cash calls assumed on acquisition" in 2017.
d) Pay $5.0 million in cash consideration at closing of the definitive agreement, to be adjusted accordingly based on the final assessed balance of the YPF Cash Calls, wherein the cash payment will be reduced or increased by any balance of the YPF Cash Calls that is greater than or less than $5.0 million, respectively. This amount was paid to the seller in 2017.
e) Issue 11,406,250 Units of the Company at a subscription price of $0.64 (C$0.80) that total to consideration of $7.3 million. Each Unit was comprised of one common share of PentaNova and

one warrant to purchase one common share of PentaNova at a purchase price of C$1.05 until expiry on July 31, 2022. The Units were issued to the seller in 2017.

f) Pay $0.5 million in cash consideration within thirty days following the closing of the definitive agreement, pending determination and finalization of purchase price adjustments. Such amount has been included in accounts payable as of December 31, 2017 and March 31, 2018 (see Note 8) with negotiations with the seller still ongoing.
g) Pay $4.5 million in cash consideration within four months following the closing of the definitive agreement, subject to any deductions or withholdings in connection with this transaction. Such amount has been included in accounts payable as of December 31, 2017 and March 31, 2018 (see Note 8) with negotiations with the seller still ongoing.

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

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

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

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

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

The YPF Cash Calls represent certain outstanding cash call balances owed to the operator of the Llancanelo Asset, YPF S.A. ("YPF"), by Alianza as at the time of the Alianza Acquisition, which are payable on demand under the terms of the associated joint venture agreement. The Company is in the process of negotiating an arrangement for terms of payment with YPF with regards to this payable balance. As of March 31, 2018, the balance of the YPF Cash Calls is accounted for as a current liability.

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

Argentina Assets

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

a) Pay $2 million in cash consideration upon completion of certain conditions by the seller. The amount was paid to the seller in 2017.
b) Assume $3 million in unpaid cash calls relating to operations on the Llancanelo Asset, with any amounts exceeding $3 million unpaid cash calls to become the responsibility of Roch S.A. and compensated to Patagonia through the deduction of any outstanding payments owed on the Roch Acquisition, up to a maximum of $0.5 million. This amount was included in "Cash calls assumed on acquisition" as of year end 2017 and is maintained as such as of March 31, 2018.
c) Issue 7,812,500 Units of the Company at a subscription price of $0.64 (C$0.80) that total to consideration of $5.0 million. Each unit is comprised of one common share of PentaNova and one warrant to purchase one common share of PentaNova at a purchase price of C$1.05 until expiry on July 31, 2022. The Units were issued to the seller in 2017.
d) Pay $0.5 million in cash consideration upon the successful transfer of the Sur Río Deseado Este Production Asset and the Sur Río Deseado Este Exploration Asset. This amount was unpaid as of March 31, 2018 pending purchase price adjustments described below.

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

Preliminary purchase price adjustments of $0.5 million have been recognized in relation to operating results of the participating interests acquired in the Llancanelo Asset and the Sur Rio Deseado Este Production Asset between the effective date and closing date of this acquisition, eliminating the remaining $0.5 million in cash consideration still owed as of March 31, 2018. A further $0.3 million has been recognized as a receivable owed to the Company as of March 31, 2018 for unpaid cash calls in excess of the $3.0 million balance to be assumed by the Company.

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

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

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

KM8 Asset and Operator

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

a) Acknowledgement of advanced cash payments of $0.9 million made to the sellers by Patagonia as part of the consideration price.
b) Pay $0.3 million in cash consideration within two business days following the finalization of the definitive agreement, which was paid by the Company in 2017.
c) Issue 16,406,250 Units of the Company at a subscription price of $0.64 (C$0.80) that total to consideration of $10.5 million. Each unit will comprise of one common share of PentaNova and one warrant to purchase one common share of PentaNova at a purchase price of C$1.05 until expiry on July 31, 2022. The Units were issued to the seller in 2017.
d) Pay $0.8 million in cash consideration after the closing of the definitive agreement, which was paid by the Company in 2017.

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

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

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

Total consideration	**$ 12,500,000**

Costs related to this transaction were comprised of finders fees paid through the issuance of 750,000 shares with an associated value of $300,000 to a member of management that facilitated the KM8

Acquisition as the original buyer of the KM8 Asset (see Note 14). In 2017, the seller agreed to reimburse $0.3 million due to excessive working capital deficiencies existing as at the closing of the KM8 Acquisition. This amount has been reflected in the balance of accounts receivable as of March 31, 2018.

YPF Farm-in Agreement

In November 2017, the Company's subsidiary, Patagonia, finalized negotiations for the farm-in on an additional 11% working interest in the Llancanelo Asset from YPF (the "YPF Farm-In"). Beyond the initial payment made of $0.5 million, the farm-in agreement requires the Company to make an additional $2.5 million cash payment as well as to propose and finance a work program for $54 million over three years (the "Work Program"). At the conclusion of the $54 million work program, the Company will be required to make a further lump sum payment of $10 million to YPF to complete the terms of the farm-in. The agreement will also see the formation of a joint technical team to operate the Llancanelo field, while YPF will remain the operator of record.

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

a) Pay an additional $2.5 million cash payment beyond the initial $0.5 million payment already made. This amount has been included in accounts payable as of December 31, 2017 and March 31, 2018.
b) Provide YPF security over payment of consideration of $2.7 million in the form of a bank guarantee or a deposit in an escrow account.
c) Agree upon the details of a work program for $54 million over three years that the Company is to fully finance.

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

7. RESTRICTED CASH

As of March 31, 2018, funds totaling $4,423,440 (December 31, 2017 - $11,732,933) comprised the balance represented in restricted cash. The composition of this amount is as follows:

Balance as at January 1, 2017	**$ -**
TPIC Maria Conchita Escrow	1,750,000
SN-9 ANH Guarantee	2,483,077
Tiburon ANH Guarantee	352,689
TPIC Escrow	7,147,167
Balance as at December 31, 2017	**$11,732,933**
Release of TPIC Maria Conchita Escrow	(1,750,000)
Release of TPIC Escrow	(7,147,167)
SN-9 ANH Guarantee foreign exchange gain/(loss)	221,448
Maria Conchita Guarantee	717,097
Tiburon ANH Guarantee foreign exchange gain/(loss)	31,316
TPIC Escrow	617,813
Balance as at March 31, 2018	**$ 4,423,440**

In 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 was released to the Company in March 2018. Furthermore, as a result of the transfer of operatorship, the Company was required to establish a term deposit of $0.7 million to secure performance a guarantee required by the ANH under the Maria Conchita E&P Contract.

Additionally, in 2017, term deposits of $2,483,077 and $352,689 were established for to secure performance guarantees required by the ANH under the E&P Contracts for the SN-9 and Tiburon Block. The SN-9 and Tiburon deposits amounts are defined in US dollars by the ANH but are held in Colombian pesos with Colombian banks and are subject to foreign currency fluctuation risks in relation to the US dollar. These deposits are to be released to the Company once current phase commitments under each E&P Contract are completed.

As part of the of the Maria Conchita Acquisition MSPA, the Company was required to present a letter of credit in favor of TPIC for $9,000,000 as security for the performance of the first well. The related costs to drill the first well were to be paid from the escrow account as they were incurred. As at December 31, 2017, the remaining balance in the escrow account was $7,147,167. The balance of the $9.0 million deposit in escrow (less a balance of $0.6 million maintained in escrow while formalization of the transfer is completed) was released back to the Company in March 2018 (see Note 6).

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 March 31, 2018 and December 31, 2017.

	2018	2017
Value-added tax receivable	1,217,170	1,045,008
Prepaid expenses	86,898	493,613
Acquisitions receivable	634,695	634,695
Sales receivable	1,257,166	1,212,731
Other receivables	616,539	570,196
Accounts receivable	**$ 3,812,468**	$ 3,956,243
Trade accounts payable	3,967,248	3,393,394
Joint venture payables	20,533	769,553
Capital accruals	5,391,751	-
Consideration payable on Acquisitions	8,222,735	9,939,756
AOG Repayment of guarantee	2,483,077	2,483,077
Accounts payable and accrued liabilities	**$ 20,085,344**	$ 16,585,780

9. EXPLORATION AND EVALUATION ASSETS

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

Balance as at December 31, 2016	**$**	**-**
Acquisitions		50,452,323
Additions		3,906,692
YPF Farm-In		3,000,000
Additional working interest acquired		9,165,071
Capitalized general and administrative		369,515
Share based compensation		715,747
Balance as at December 31, 2017	**$**	**67,609,348**
Additions		9,241,533
Capitalized general and administrative		165,573
Share based compensation		23,927
Balance as at March 31, 2018	**$**	**77,040,381**

The Corporation's exploration and evaluation assets represent costs incurred in relation to three exploration blocks in Colombia and three exploration blocks in Argentina. During the period ended March 31, 2018, the Company did not identify any impairment triggers that exist for these exploration blocks.

10. PROPERTY, PLANT, AND EQUIPMENT

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

Cost	Oil and natural gas assets	Corporate	Total
As at December 31, 2016	$ -	$ -	$ -
Acquisitions	4,274,624	48,877	4,323,501
Additions	793,330	124,368	917,698
As at December 31, 2017	5,067,954	173,245	5,241,199
Capital expenditures	(96,174)	126,854	30,680
As at March 31, 2018	**4,971,780**	**300,099**	**5,271,879**
Accumulated depletion and depreciation			
As at December 31, 2016	-	-	-
Additions	933,153	24,935	958,088
As at December 31, 2017	933,153	24,935	958,088
Additions	621,720	20,710	642,430
As at March 31, 2018	**1,554,873**	**45,645**	**1,600,518**
Net book value			
As at December 31, 2016	-	-	-
As at December 31, 2017	4,134,801	148,310	4,283,111
As at March 31, 2018	**$ 3,416,907**	**$ 254,454**	**$ 3,671,361**

The Corporation's property, plant and equipment assets represent costs incurred in relation to two blocks in Argentina as well as certain corporate fixed assets held in Colombia and Argentina. As at March 31, 2018, the Company determined that no indicators of impairment existed for its CGU's that are included within property, plant and equipment assets.

The depletion expense calculation for the three months ended March 31, 2018 included as part of the depletable base $5.5 million for estimated future development costs associated with proved and probable reserves in Argentina.

11. SHARE CAPITAL

Common shares

At March 31, 2018, 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 March 31, 2018 are as follows:

	Common shares	Amount
Balance, January 1, 2017	50,000	$ -
Shares redeemed	(50,000)	-
Shares issued through private placement (net of share issuance costs)	160,441,560	29,306,312
Shares issued to consultant	1,200,000	449,136
Balance April 4, 2017	**161,641,560**	**29,755,448**
Shares issued in Transaction	19,473,289	7,252,621
Transaction costs		(396,820)
Shares issued for transaction costs	1,600,000	595,903
Balance June 30, 2017	**182,714,849**	**37,207,152**
Shares issued for Colombian assets	206,145	150,000
Shares issued through private placement (net of share issuance costs)	20,625,000	9,039,821
Shares issued for Alianza Acquisition	11,406,250	5,201,690
Shares issued as finders fees for Alianza Acquisition	468,750	187,500
Share issued for Advances Toward Acquisitions	24,968,750	11,344,685
Shares issued on acquisition success fee	1,065,000	426,000
Shares issued for services rendered	746,858	242,545
Balance December 31, 2017 & March 31, 2018	**242,201,602**	**$ 63,799,393**

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

Also in January 2017, the Company completed a non-brokered private placement issuing 47,641,560 common shares for gross proceeds of $18,306,778 (C$23,820,780) and closed a brokered private placement issuing 32,800,000 common shares for gross proceeds of $12,603,751 (C$16,400,000). Of the common shares issued, 4,962,280 were issued to related officers, directors, and insiders which equates to $1,906,809 (C$2,481,140). Share issuance costs incurred in relation to the non-brokered and brokered private placements are $1,665,698, which includes $308,866 for the estimated fair value of warrants issued to brokers of the private placement, as described below. Furthermore, in March 2017, the Company issued 1,200,000 common shares to a consultant at a price of $0.37 (C$0.50) per share for services rendered in connection with the acquisition of the Company's participating interest in the SN-9 Block.

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

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

As part of the consideration for the Alianza, Roch, and KM8 acquisitions, the Company issued 11,406,250, 7,812,500 Units and 16,406,250 Units, respectively, (each Unit consisting of one common share and one share purchase warrant) at the same time as the non-brokered private placement described above. The Units were valued at $0.64 (C$0.80) per Unit and were allocated towards the various acquisitions, as described in Note 6, as follows:

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

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

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

Stock Options

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

As at March 31, 2018, a total of 20,233,927 (December 31, 2017 – 22,896,427) options were issued and outstanding under this plan. Options which are forfeited/expired are available for reissue.

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

	Stock options	Weighted average exercise price (C$)
Balance, January 1, 2017	990,829	$ 0.81
Options issued	22,187,500	0.80
Options forfeited	(25,000)	0.80
Expired options	(256,902)	1.08
Balance, December 31, 2017	**22,896,427**	**$ 0.80**
Options issued	1,000,000	0.80
Expired options	(3,662,500)	0.80
Balance, March 31, 2018	**20,233,927**	**$ 0.80**

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

On January 1, 2018, the Company granted 1,000,000 options to acquire common shares to a consultant of the Company at a price of C$0.80 per common share. The options were for a ten-year term, expiring on January 1, 2028. Of the options granted, 500,000 vested immediately on the date of grant. The other 500,000 options vest on the first anniversary date from the date of grant.

The following summarizes information about stock options outstanding as at March 31, 2018:

Exercise prices (C$)	Number of options outstanding	Weighted average term to expiry (years)	Number of options exercisable
0.61	925,000	3.83	925,000
0.80	19,300,000	9.38	17,699,995
12.60	7,142	0.85	7,142
21.00	1,785	1.90	1,785
	20,233,927	**9.12**	**18,633,922**

For the stock options issued during the three months ended March 31, 2018 and the year ended December 31, 2017, the Black-Scholes option pricing model was used to estimate their fair value with the following assumptions:

	2018	2017
Share price	C$0.39	C$0.50
Exercise price	C$0.80	C$0.80
Expected stock price volatility	75%	75%
Option life	10 years	10 years
Expected dividend yield	0%	0%
Risk-free interest rate	2.04%	1.65%
Fair value per option	C$0.27	C$0.36

The value of the stock options vesting in the three months ended March 31, 2018 equated to $184,211. Of this amount $23,927 was capitalized and $160,284 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 was 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 March 31, 2018 (March 31, 2017 – Nil) are as follows:

	Purchase Warrants	Amount
Issued on non-brokered private placement	20,625,000	$ 3,648,285
Issued on Alianza Acquisition	11,406,250	2,098,310
Issued on Roch Acquisition	7,812,500	1,437,198
Issued on KM8 Acquisition	16,406,250	3,018,117
	56,250,000	**$ 10,201,910**

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

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

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

Loss per share

For purposes of the loss per share calculations for the periods ended March 31, 2018 and March 31, 2017 there is no difference between the basic loss per share and the diluted loss per share amounts. For the period ended March 31, 2018, 20,233,927 stock options, 1,968,000 Broker Warrants, and 56,250,000 Purchase Warrants were excluded as their impact was anti-dilutive.

12. FINANCE

The components of finance expenses/income are as follows:

For three months ended March 31	2018	2017
Cash:		
Interest income	**$ (77,985)**	$ -
Interest expenses and bank charges	**97,482**	-
	19,497	-
Non-cash:		
Accretion on decommissioning obligation	**28,345**	-
Total finance expenses (income)	**$ 47,842**	$ -

13. ASSETS HELD FOR SALE

Horizon Investment

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

The investment of Horizon Shares held by the Company have been classified as held for sale. At March 31, 2018, the fair market value of the 12,250,000 Horizon Shares was $570,066 (C$735,000) resulting in an unrealized loss on assets held for sale of $96,895 (C$122,500) representing the decline in share value for the three months ended March 31, 2018 between the closing price as of December 31, 2017 of $0.056 (C$0.07) per share and the closing price as of March 31, 2018 of $0.05 (C$0.06) per share, net of foreign exchange.

14. RELATED PARTIES

During the period ended March 31, 2018, the Company paid 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.

In January 2017, the Company acquired 100% of the shares of Bochica and rights to an 80% participating interest in the Maria Conchita Block. The terms and conditions of the Maria Conchita Acquisition included that former shareholders of Bochica retained a 20% carried interest in the Maria Conchita Block. A certain officer of the Company previously served as President and Director of Bochica until August 26, 2016, and as former shareholder of Bochica holds a minority indirect interest on the 20% carried interest, which amounts to approximately 1.2% of the total working interest on the Maria Conchita Block.

Also, during the period ended March 31, 2018 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 three months ended March 31,2018 this royalty equated to $44,812 in royalty expense to the Company.

In connection with the acquisition of the KM8 Asset, a certain member of management of the Company (prior to becoming an employee of the Company) was also a director and shareholder with a controlling interest of the original buyer of the KM8 Asset and a party to the KM8 Acquisition transaction for total consideration of $12.5 million. This company, as the original buyer, assigned its rights and obligations under the KM8 Acquisition to Patagonia. Furthermore, this company received a finders fee of 750,000 common shares of PentaNova, which are included in the aforementioned 2,283,750 shares that were issued as finder fees as part of the acquisitions in Argentina.

15. COMMITMENTS

PentaNova drilled Istanbul 1 in the first quarter of 2018, which is representative of the ANH commitment for Phase 2 of the contractual exploration program to drill one exploration well (for which the Company will paid 100% of the costs under the terms of the Maria Conchita Acquisition), which is required by September 2018. The Company is currently awaiting ANH approval to ensure that the commitment has been met.

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

Block	2018	2019	2020	Total
SN-9 Block (1)	-	-	22.3	**22.3**
Tiburon Block (2)	3.0	-	-	**3.0**
Llancanelo Block (3)	21.5	-	47.7	**69.2**
Total	**24.5**	**-**	**70.0**	**94.5**

1) PentaNova's ANH commitment to carry out the minimum requirement to process and interpret 204.4 km of 2D seismic and drill one exploration well (for which the Company will pay 100% of the costs on the terms of the SN-9 Acquisition) according to Phase 1 of the contractual exploration program, which must be fulfilled by mid-year 2020.
2) Relates to PentaNova's share of the ANH commitment to carry out the minimum requirement to acquire, process, and interpret 204.4 km of 2D seismic (which commitment the Company plans to replace with 69.75 km^2 of 3D seismic instead) according to Phase 3 of the contractual exploration program. Currently, operations are delayed due to disputes in the region, with current ANH deadline of 2018 with extensions if disputes were resolved in 2017. The commencement date for seismic acquisition is unknown at this time. The Company assumes that operations will commence in 2019.
3) Represents the Company's commitment under the YPF Farm-In to 1) fulfill farm-in cash payment of $2.5 million and provide YPF security of $2.7 million in the form of a bank guarantee or a deposit in an escrow account; and 2) drill five wells, as a minimum, during the 2018 year at an estimated cost of $3.25 million per well, with the remainder of the requisite $54 million carry under the terms of the YPF Farm-In being completed by the end of the defined 3-year time frame. After the completion of the $54 million carry, the Company will be required to make a final lump sum payment of $10 million to YPF to complete the terms of the farm-in.

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

16. SEGMENTED INFORMATION

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

The following tables show information regarding the Company's segments for the three months ended March 31, 2018 and 2017.

For the three months ended March 31, 2018	Argentina	Colombia	Corporate	Total
Revenue:				
Oil and natural gas revenue	$ 2,270,243	$ -	$ -	$ 2,270,243
Net revenue on carried working interest	351,606	-	-	351,606
Royalty expense	(446,478)	-	-	(446,478)
Net oil and natural gas revenue	**2,175,371**	**-**	**-**	**2,175,371**
Expenses:				
Operating expenses	1,400,808	-	-	1,400,808
Inventory revaluation	186,729	-	-	186,729
General and administrative	60,609	310,659	1,334,567	1,705,835
Business development	25,760	7,186	56,857	89,803
Share based payments	-	-	160,284	160,284
Depletion and depreciation	632,531	9,899	-	642,430
Finance	42,554	(62,734)	68,022	47,842
Foreign exchange loss/(gain)	213,047	(230,043)	(82,633)	(99,629)
Loss on revaluation of asset held for sale			96,895	96,895
	2,562,038	**34,967**	**1,633,992**	**4,230,997**
Loss from continuing operations	**(386,667)**	**(34,967)**	**(1,633,992)**	**(2,055,626)**
Assets, March 31, 2018	**58,450,061**	**26,815,049**	**14,987,862**	**100,252,972**
Liabilities, March 31, 2018	**$ 25,658,101**	**$ 6,211,984**	**$ 5,164,987**	**$ 37,035,072**

For the three months ended March 31, 2017	Argentina	Colombia	Corporate	Total
Revenue:				
Oil and natural gas revenue	$ -	$ -	$ -	$ -
Net revenue on carried working interest	-			-
Royalty expense	-	-	-	-
Net oil and natural gas revenue	**-**	**-**	**-**	**-**
Expenses:				
Operating expenses	-	-	-	-
Inventory revaluation				
General and administrative	-	-	320,148	320,148
Business development	-	-	1,267,021	1,267,021
Share based payments	-	-	-	-
Depletion and depreciation	-	-	2,893	2,893
Finance	-	-	-	-
Foreign exchange loss	-	-	440,381	440,381
Loss on revaluation of asset held for sale	-	-	-	-
	-	**-**	**2,030,443**	**2,030,443**
Loss from continuing operations	**-**	**-**	**(2,030,443)**	**(2,030,443)**
Assets, March 31, 2017	**-**	**7,094,017**	**24,325,220**	**31,419,237**
Liabilities, March 31, 2017	**$ -**	**$ -**	**$ 3,912,150**	**$ 3,912,150**

17. SUPPLEMENTAL CASH FLOW INFORMATION

For the three months ended March 31	2018	2017
Accounts receivable	$ 143,775	$ (495,923)
Inventory	619,190	(870,480)
Accounts payable and accrued liabilities	3,499,564	3,385,366
Working capital adjustments for Bochica Acquisition	2,125,000	(3,178,420)
Working capital adjustments for SN9 Acquistion	-	(250,000)
Working capital adjustments for Bolivar Acquisition	-	(3,151)
Working capital adjustments for discontinued operations	(15,836)	-
Change in non-cash working capital	**$ 6,371,693**	$ (1,412,608)
Relating to:		
Operating activities	$ 578,626	$ 575,801
Investing activities	5,793,067	(2,288,409)
Financing activities	-	300,000
Change in non-cash working capital	**$ 6,371,693**	$ (1,412,608)

18. REVENUE

The following table presents the Company’s oil and natural gas revenue disaggregated by product type for the three months ended March 31:

	2018
Production revenue:	
Oil and condensate sales	$ 2,270,243
Natural gas sales	-
Natrual gas liquid sales	-
Total oil and natural gas production revenue	**2,270,243**
Net revenue on carried working interest	351,606
Total oil and natural gas revenue	**$ 2,621,849**

19. SUBSEQUENT EVENTS

Options granted to new management

In conjunction with the appointment of new senior management in February 2018, 4,156,000 stock options were granted in April 2018 to these new management members, at an exercise price C$0.36 per option. These stock options vest over a period of 2 years, with one-third vesting on grant date, one-third vesting in February 2019, and one-third vesting in February 2020, all expiring in February 2028. A further 3,844,000 phantom options were granted to new management member under the same vesting and expiry terms as the granted stock options. Phantom options will be settled by payment of cash for the market price minus C$0.36 per phantom option on the date of exercise. Further to the stock option grant to new management, 1,000,000 stock options were forfeited as per the terms of an agreement reached by the Company and certain employees.

As part of the terms of their appointment, 4,800,000 common shares are to be issued to these new management members, which will be held in escrow and will vest over a period of three years. As of the date of these financial statements, approval from the TSX-V for the issuance of these common shares is still pending.