Management's Discussion and Analysis

This management's discussion and analysis of financial condition and results of operations ("MD&A") of Pennine Petroleum Corporation ("Pennine" or the "Company") is dated November 29, 2016 and should be read in conjunction with the audited financial statements of the Company for the year ended December 31, 2015, the MD&A for the year ended December 31, 2015 and the unaudited condensed interim financial statements of the Company for the three and nine months ended September 30, 2016. These financial statements, including the comparative figures, were prepared in accordance with International Financial Reporting Standards ("IFRS"). Unless otherwise noted, all financial measures are expressed in Canadian dollars. This MD&A contains forward looking information based on the Company's current expectations and projections.

Additional information relating to the Company is available on SEDAR at www.sedar.com or the Company's website www.penninecorp.com.

Forward Looking Statements - Certain statements contained within the Management's Discussion and Analysis, and in certain documents incorporated by reference into this document, constitute forward looking statements. These statements relate to future events or the Company's future performance. All statements other than statements of historical fact may be forward looking statements. Forward looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "budget", "plan", "continue", "estimate", "expect", "forecast", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward looking statements.

In particular, this MD&A contains the following forward-looking statements pertaining to, without limitation, the following: Pennine's production volumes and the timing of when additional production volumes will come on stream; Pennine's realized price of commodities in relation to reference prices; future commodity prices; the Company's future royalty rates and the realization of royalty incentives; Pennine's expectation of reducing operating costs on a per unit basis; the relationship of Pennine's interest expense and the Bank of Canada interest rates; increases in general and administrative expenses and recoveries; future development and exploration activities and the timing thereof; the future tax liability of the Company; the depletion, depreciation and accretion rate; the estimated future contractual obligations of the Company and the amount expected to be incurred under its farm-in commitments; the future liquidity and financial capacity of the Company; and its ability to fund its working capital and forecasted capital expenditures. In addition, statements relating to "reserves" or "resources" are deemed to be forward looking statements, as they involve the implied assessment, based on certain estimates and assumptions that the resources and reserves described can be profitably produced in the future.

With respect to the forward-looking statements contained in the MD&A, Pennine has made assumptions regarding: future commodity prices; the impact of royalty regimes and certain royalty incentives, the timing and the amount of capital expenditures; production of new and existing wells and the timing of new wells coming on-stream; future proved finding and development costs; future operating expenses including processing and gathering fees; the performance characteristics of oil and natural gas properties; the size of oil and natural gas reserves; the ability to raise capital and to continually add to reserves through exploration and development; the continued availability of capital, undeveloped land and skilled personnel; the ability to obtain equipment in a timely manner to carry out exploration and development activities; the ability to obtain financing on acceptable terms; the ability to add production and reserves through exploration and development activities; and the continuation of the current tax regulations.

The Company believes the expectations reflected in those forward looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and such forward looking statements included in, or incorporated by reference into, this MD&A should not be unduly relied upon. These statements speak only as of the date of this MD&A or as of the date specified in the documents incorporated by reference into this Management's Discussion and Analysis, as the case may be. The actual results could differ materially from those anticipated in these forward looking statements as a result of the risk factors set forth below and elsewhere in this Management's Discussion and Analysis: volatility in market prices for oil and natural gas; counterparty credit risk; access to capital; changes or fluctuations in production levels; liabilities inherent in oil and natural gas operations; uncertainties associated with estimating oil and natural gas reserves; competition for, among other things, capital, acquisitions of reserves, undeveloped lands and skilled personnel; geological, technical, drilling and processing problems; limitations on insurance; changes in environmental or legislation applicable to the Company's operations, and ability to comply with current and future environmental and other laws; changes in income tax laws or changes in tax laws and incentive programs relating to the oil and gas industry; and the other factors discussed under "Risk Factors" in the following MD&A.

Readers are cautioned that the foregoing lists of factors are not exhaustive. The forward looking statements contained in this MD&A and the documents incorporated by reference herein are expressly qualified by this cautionary statement. The forward-looking statements contained in this document speak only as of the date of this document and Pennine does not assume any obligation to publicly update or revise them to reflect new events or circumstances, except as may be required pursuant to applicable securities laws.

The financial data presented herein has been prepared in accordance with IFRS. The Company has also used certain measures of financial reporting that are commonly used as benchmarks within the oil and natural gas production industry in the following MD&A discussion. The measures discussed are widely accepted measures of performance and value within the industry, and are used by investors and analysts to compare and evaluate oil and natural gas exploration and producing entities. Most notably, these measures include operating netback and funds flow from operations. Operating netback is a benchmark used in the crude oil and natural gas industry to measure the contribution of oil and natural gas sales subsequent to the deduction of royalties and operating costs. Funds flow from operations is before changes in non-cash working capital and site restoration expenditures, and is used to analyze operations, performance and liquidity. These measures are not defined under IFRS and should not be considered in isolation or as an alternative to conventional IFRS measures. These measures and their underlying calculations are not necessarily comparable to a similarly titled measure of another entity. When these measures are used, they are defined as "non IFRS" and should be given careful consideration by the reader.

Per barrel of oil equivalent ("boe") amounts have been calculated using a conversion rate of six thousand cubic feet of natural gas to one barrel of oil. BOE's may be misleading, particularly if used in isolation. The boe conversion ratio used is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

Lands and Rights Held As At September 30, 2016

Success Area, South West Saskatchewan

The Company's 50% interest in the Success area wells was sold to a third party effective February 1, 2016 for gross proceeds of $42,500. The Success area is located near Swift Current, Saskatchewan. Pennine had a 50% working interest holder in 320 gross acres (160 net acres) of petroleum and natural gas rights in the Success area, subject to a gross overriding royalty of 10%.

Chauvin South East Central Area, Alberta

There are two wells on this property, located approximately 240 kilometers southeast of Edmonton, Alberta. Pennine holds a 46.7% working interest in the 14-6-42-1W4 and the 16-1-42-2W4 well subject to a 10% gross overriding royalty. The 14-6-42-1W4 well was shut in for the first half of 2016. Net production for the two wells averaged 8.4 barrels per day (2015 – 6.8 barrels per day) for the nine months ended September 30, 2016 and generated net loss of $1,452 or $1.36 per barrel versus net revenue of $20,131 or $12.69 per barrel for the comparative 2015 period. Production and transportation costs decreased to $8,233 from $17,628 due to the 14-6 well being shut-in reducing water transportation costs.

Cygnet (Red Deer) area

The Company acquired through a General Conveyance Agreement, effective June 1, 2015, 100% of the Petroleum and Natural Gas Rights to three sections of land in Township 38 Range 28W4M which contain two producing Viking natural gas wells. The property incurred a loss of $18,889 for the nine month period ended September 30, 2016. The Company continues to evaluate the two wells.

Youngstown (Chinook) Area, Alberta

On March 31, 2014, Pennine entered into a general conveyance agreement, effective March 1, 2014, and closing April 21, 2014, for the acquisition of 10 contiguous sections of petroleum and natural gas rights in the Youngstown area of Alberta from a privately held company. The transaction included one producing natural gas well and six shut-in natural gas wells. The principal producing zones are the Belly River, Milk River and Manville formations. The property has been classified as an exploration and evaluation asset therefore the net operating loss of $809 for the nine month period ended September 30, 2016 was included in exploration and evaluation.

International Albania Project

During 2015 the Company applied to enter into a Production Sharing Agreement (“PSA”) on the Velca Block Albania. The company was informed that it was successful in securing the right to negotiate the PSA amongst a group of domestic and international interested parties in late November 2015. On February 3, 2016, the Company signed a “Main Terms and Conditions for Production Sharing Agreement Block Velca.” On April 7, 2016, Pennine and Albpetrol Sh. A. the Joint Venture Partner to the PSA forwarded the PSA document to various Ministries of the Republic of Albania for comment prior to signing. Pennine has been informed that the review by the Government of the Republic of Albania is ongoing.

Production and Operating Costs

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2016	2015	**2016**	2015
Volume				
Production-bbl	**723**	1,661	**2,302**	3,063
Average daily Bbl	**7.9**	18.0	**8.4**	11.2
Revenue net of Royalties	**$ 23,451**	$ 58,045	**$ 57,221**	$ 122,966
Average price/Bbbl net revenue	**$ 23.56**	$ 34.97	**$ 24.86**	$ 40.13
Operating Costs	**$ 25,311**	$ 36,101	**$ 74,773**	$ 73,371
Transportation Costs	**$ 6,819**	$ 12,105	**$ 12,860**	$ 28,100
Total Production Costs	**$ 32,130**	$ 48,206	**$ 87,633**	$ 101,471
Cost/Bbl	**$ 45.28**	$ 29.03	**$ 38.07**	$ 33.12
Cash Flow Per Barrel	**$ (12.84)**	$ 5.94	**$ (13.21)**	$ 7.01

Currently the Corporations production is located in the provinces of Saskatchewan (Success area) and Alberta (Chauvin and Cygnet areas). Pennine sold its interest in the Success area effective February 1, 2016. The Company's production was an average of 8.4 barrels per day for the nine month period ended September 30, 2016 compared to 11.2 barrels per day for the comparative period in 2015. The Company's production was an average of 7.9 barrels per day for the three month period ended September 30, 2016 compared to 18.0 barrels per day for the comparative period in 2015. The decrease in revenue net of royalties is due to a very significant decrease in the price of crude oil. Due to the decline in revenue efforts were made to reduce all operating and transportation costs.

The average price per barrel, net of royalties, decreased from $34.97 for the three months ended September 30, 2015 to $23.56 for the current three month period along with increased operating costs resulting in a negative cash flow per barrel situation that has since improved.

The total production and transportation costs for the nine month period ended September 30, 2016 were $87,633 or $38.07 per barrel compared to $101,471 or $33.12 per barrel for the comparative period. The decrease in operating and transportation costs is due to one well at Chauvin being shut in during the first half of 2016 and the two wells at Success being sold effective February 1, 2016.

Depletion

	For the three months ended September 30,		**For the nine months ended September,**	
	2016	2015	**2016**	2015
Depletion ($)	**2,519**	5,116	**7,369**	10,249

The decrease in the depletion expense in the 2016 three and nine month periods as compared to the 2015 comparative periods is due to decrease in the Company's depletable base and decrease in production. The Company is using its proved plus probable reserves to compute the depletion expense.

General and Administrative Expenses

General and administrative costs decreased by 8% or $22,463 to $253,644 for the nine months ended September 30, 2016 versus the nine months ended September 30, 2015.

Staffing and consulting fees accounted for approximately 52% (2015 - 59%) of the total general and administrative expenses. Regulatory reporting and shareholder and public relations were 8% (2015 - 7%), office administration costs were 8% (2015 - 7%) the Albania project costs were 25% (2015 – 22%) and all other costs were 7% (2015 - 6%) of general and administrative expenses.

Included in general and administrative expenses is $124,735 (2015 - $135,718) for management, administrative and technical consulting services for the nine month period ended September 30, 2016 that has been paid to companies controlled by officers and or directors of the Company. Included in accounts payable and accrued liabilities is $Nil at June 30, 2016 (December 31, 2015 - $Nil) due to these companies.

Finance Expense

The finance expense is the increase in the present value of the decommissioning obligation for the current period and the amount of this expense will fluctuate commensurate with the asset retirement obligation as new wells are drilled, acquired through acquisitions or property depositions. Also included in finance expense is $10,035 of interest on the promissory notes issued in 2015 and converted into equity in 2016.

Income Taxes

Presently the Company does not expect to pay current taxes into the foreseeable future based on existing tax pools, planned capital activities and current forecasts of taxable income. However, the current tax horizon will ultimately depend on several factors including commodity prices, future production, corporate expenses, and both the type and amount of capital expenditures incurred in future reporting periods.

Working Capital, Liquidity & Capital Resources

As at September 30, 2016, the Company had a working capital surplus of $113,167 inclusive of long-term payables, does not have a loan facility available, has a deficit of $7.47 million and incurred a net loss of $332,918 during the period. Management continues to focus its efforts on completing a reorganization of the Company, raising additional capital through the sale of certain assets or through debt or equity financings with the Company closing a $731,650 private placement in August 2016 and securing a $1.0 million line of credit in October 2016. Although management's efforts to raise capital and monetize assets have been successful in the past, there is no certainty that they will be able to do so in the future. The Company will use debt and equity issues to fund its obligations and future obligations, if available.

In October 2016, the Company entered into a credit facility letter of intent for the amount of $1 million. The facility can be drawn in whole or in part by mutual consent. Any funds drawn down as part of the credit facility will be subject to an agreed-upon interest rate. Repayment terms and conditions will be determined if and when any funds are requested as part of the credit facility.

Management assesses quarterly if there should be any impairment of the financial assets of the Company. At September 30, 2016, the Company had $2,803 (December 31, 2015 - $5,253) of overdue accounts receivable. During the period ended September 30, 2016, management has determined that no allowance is required on the accounts receivable. At September 30, 2016, the Company's two largest joint venture partners represented approximately 58% (December 31, 2015 - 54%) and 30% (December 31, 2015 - 28%) of the Company's account receivable balance respectively.

During the current period, the Company sold the Success property for gross proceeds of $42,500 and incurred $25,128 in capital expenditures for its oil and gas activities (before any decommissioning obligation adjustments).

Outstanding Share Data

The Company has authorized an unlimited number of Common shares, Non-voting shares and First and second preferred shares, assumable in series. The Company currently has 137,901,527 common shares outstanding. The following details the share capital structure as of the date of this MD&A.

	Expiry Date	Exercise Price	Number	Total Number
Common shares				137,901,527
Warrants	May 31, 2017	$0.05	6,389,500	
	August 4, 2017	$0.05	31,581,000	
	August 21, 2017	$0.05	10,000,000	47,970,500
Stock options	April 2, 2019	$0.05	3,323,986	
	May 1, 2019	$0.05	1,000,000	
	September 15, 2019	$0.05	1,665,000	
	January 11, 2021	$0.05	2,580,000	
	July 11, 2021	$0.05	500,000	9,068,986

Financial Instruments

Crude oil and natural gas operations involve certain risks and uncertainties. These risks include, but are not limited to, commodity prices, foreign exchange rates, interest rates, credit, operational and safety.

Operational risks are managed through the Company's external insurance program designed to protect the Company from significant losses arising from risk exposures. Risks associated with commodity prices, interest and exchange rates are generally beyond the control of the Company; however, various hedging products may be considered to reduce the volatility in these areas.

Safety and environmental risks are addressed by compliance with government regulations as well as adoption and compliance of the Company's safety and environmental standards policy.

The Company is exposed to concentration of credit risk as substantially all of the Company's accounts receivable are with customers and joint venture partners in the oil and gas industry and are subject to normal industry credit risks. The Company mitigates this risk by entering into transactions with long-standing counterparts and partners. If significant amounts of capital are to be spent on behalf of a joint venture partner, the partner is "cash called" in advance of the capital spending taking place.

Summary of Quarterly Results

($ thousands, except per share amounts)	Three months ended September 30, 2016	Three months ended June 30, 2016	Three months ended March 31, 2016	Three months ended December 31, 2015
Petroleum and natural gas sales, net of royalties	23	19	15	36
Net income (loss)	(95)	(129)	(109)	(649)
Per share – basic and diluted	(0.001)	(0.001)	(0.001)	(0.006)
Secured debt	-	200	200	200
Net capital expenditures (recovery)	21	14	(31)	94
Average daily production (boe/d)	8	9	9	13

($ thousands, except per share amounts)	Three months ended September 30, 2015	Three months ended June 30, 2015	Three months ended March 31, 2015	Three months ended December 31, 2014
Petroleum and natural gas sales, net of royalties	58	32	33	43
Net income (loss)	(79)	(113)	(81)	(136)
Per share – basic and diluted	(0.001)	(0.001)	(0.00)	(0.00)
Secured debt	130	130	40	
Net capital expenditures	134	326	23	30
Average daily production (boe/d)	18	6	9	9

Factors that have caused variations over the quarters:

- During the current quarter, the Company completed an equity financing and converted the secured debt into common shares.
- During the first quarter of 2016, the Company sold its working interest in the Success area for $42,500 resulting in a gain on disposition of $26,176.
- The net loss during the 2015 fourth quarter is primarily related to a $528,642 impairment charge with respect to land expiries at Castor.
- The increase in production is due to producing well acquisitions completed in the 2015 second quarter offset by a continued decline in commodity pricing.
- In the second quarter of 2015, the Company issued an additional $90,000 of secured promissory notes to directors and $12,500 of unsecured promissory notes to acquire

petroleum and natural gas rights. The Company also closed an equity financing of $395,985 resulting in the increased working capital.

- During the first quarter of 2015, the Company completed two secured promissory note offerings with companies controlled by two directors for $40,000. The decrease in revenue is a direct result of the decrease in world oil prices. The Company has not hedged any of its production.
- During the fourth quarter of 2014, Pennine incurred a onetime impairment charge of $20,000 related to the Success property, incurred engineering, land consulting and legal fees related to a proposed limited partnership structure that did not go through and finalized the balance owing to the CRA with respect to a 2005 flow through issuance.

Critical Accounting Estimates

A summary of the Company's significant accounting policies is contained in Note 3 to the annual financial statements. These accounting policies are subject to estimates and key judgements about future events, many of which are beyond Pennine's control. The following is a discussion of the accounting estimates that are critical to the financial statements.

Crude oil and natural gas assets - reserves estimates – Pennine retained Reliance Engineering Group Petroleum Consultants to evaluate its crude oil and natural gas reserves, prepare an evaluation report, and report to the Reserves Committee of the Board of Directors. The process of estimating crude oil and natural gas reserves is subjective and involves a significant number of decisions and assumptions in evaluating available geological, geophysical, engineering and economic data. These estimates will change over time as additional data from ongoing development and production activities becomes available and as economic conditions affecting crude oil and natural gas prices and costs change. Reserves can be classified as proved, probable or possible with decreasing levels of likelihood that the reserves will be ultimately produced.

Reserve estimates are a key input to the Company's depletion calculations and impairment tests. Property, plant and equipment within each area are depleted using the unit-of-production method based on proved and probable reserves using estimated future prices and costs. In addition, the costs subject to depletion include an estimate of future costs to be incurred in developing proved reserves. A revision in reserve estimates or future development costs could result in the recognition of higher depletion charged to net income.

Under the IFRS, the carrying amounts of property, plant and equipment are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the estimated recoverable amount is calculated. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit" or "CGU"). The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Value in use is generally computed by reference to the present value of the future cash flows expected to be derived from production of proven and probable reserves. Exploration and evaluation ("E&E") assets will be allocated to the related CGU's to assess for impairment, both at the time of any triggering facts and circumstances as well as upon their eventual reclassification to producing assets (oil and natural gas interests in property, plant and equipment). An impairment loss is recognized in income if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Reserve, revenue, royalty and operating cost estimates and the timing of future cash flows are all critical components of the impairment test. Revisions of these estimates could result in a write-down of the carrying amount of crude oil and natural gas properties.

Decommissioning liabilities – The Company recognizes the estimated fair value of the decommission liability in the period in which it is incurred, and records a corresponding increase in the carrying value of the related asset. The future asset retirement obligation is an estimate based on the Company's ownership interest in wells and facilities and reflects estimated costs to complete the abandonment and reclamation as well as the estimated timing of the costs to be incurred in future periods. Estimates of the costs associated with abandonment and reclamation activities require judgement concerning the method, timing and extent of future retirement activities. The capitalized amount is depleted on a unit-of-production method over the life of the proved and probable reserves. The liability amount is increased each reporting period due to the passage of time and this accretion amount is charged to earnings in the period, which is included as a financing expense. Actual costs incurred on settlement of the decommissioning liability are charged against the liability. Judgements affecting current and annual expense are subject to future revisions based on changes in technology, abandonment timing, costs, discount rates and the regulatory environment.

Share based payments – Stock options issued to employees and directors under the Company's stock option plan are accounted for using the fair value method of accounting for stock-based compensation. The fair value of the option is recognized as a share based payment and contributed surplus over the vesting period of the option. Share based payment is determined on the date of an option grant using the Black-Scholes option pricing model. The Black-Scholes pricing model requires the estimation of several variables including estimated volatility of Pennine's stock price over the life of the option, estimated option forfeitures, estimated life of the option, estimated risk-free rate and estimated dividend rate. A change to these estimates would alter the valuation of the option and would result in a different related share based payment.

Income taxes – Pennine follows the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting period, and any adjustment to tax payable in respect to previous periods. Tax interpretations and legislation in which the Company operates are subject to change. As such, income taxes are subject to measurement uncertainty and interpretations can impact net income through current tax arising from the changes in the deferred income tax asset and liabilities.

Risk Factors

There are a number of risk factors facing Companies that participate in the Canadian oil and gas industry. A summary of certain risk factors relating to our business are disclosed below.

Exploration, Development and Production Risks

Oil and natural gas exploration involves a high degree of risk, for which even a combination of experience, knowledge and careful evaluation may not be able to overcome. There is no assurance that expenditures made on future exploration by Pennine will result in new discoveries of oil or natural gas in commercial quantities. It is difficult to project the costs of implementing an exploratory drilling program due to the inherent uncertainties of drilling in unknown formations, the costs associated with encountering various drilling conditions such as over-pressured zones, tools lost in the hole and changes in drilling plans and locations as a result of prior exploratory wells or additional seismic data and interpretations thereof.

The long-term commercial success of Pennine will depend on its ability to find, acquire, develop and commercially produce oil and natural gas reserves. No assurance can be given that Pennine will be able to locate satisfactory properties for acquisition or participation. Moreover, if such acquisitions or participations are identified, Pennine may determine that current markets, terms of acquisition and participation or pricing conditions make such acquisitions or participations uneconomic.

Future oil and gas exploration may involve unprofitable efforts, not only from dry wells, but from wells that are productive but do not produce sufficient net revenues to return a profit after drilling, operating and other costs. Completion of a well does not assure a profit on the investment or recovery of drilling, completion and operating costs. In addition, drilling hazards or environmental damage could greatly increase the cost of operations, and various field operating conditions may adversely affect the production from successful wells. These conditions include delays in obtaining governmental approvals or consents, shut-ins of connected wells resulting from extreme weather conditions, insufficient storage or transportation capacity or other geological and mechanical conditions. While diligent well supervision and effective maintenance operations can contribute to maximizing production rates over time, production delays and declines from normal field operating conditions cannot be eliminated and can be expected to adversely affect revenue and cash flow levels to varying degrees.

In addition, oil and gas operations are subject to the risks of exploration, development and production of oil and natural gas properties, including encountering unexpected formations or pressures, premature declines of reservoirs, blow-outs, sour gas releases, fires and spills. Losses resulting from the occurrence of any of these risks could have a materially adverse effect on future results of operations, liquidity and financial condition. Pennine attempts to minimize exploration, development and production risks by utilizing a technical team with extensive experience to assure the highest probability of success in its drilling efforts. The collaboration of a team of seasoned veterans in the oil and gas business, each with a unique expertise in the various upstream to downstream technical disciplines of prospect generation to operations, provides the best assurance of competency, risk management and drilling success. A full cycle economic model is utilized to evaluate all hydrocarbon prospects. Detailed geological and geophysical techniques are regularly employed including 3D seismic, petrography, sedimentology, petrophysical log analysis and regional geological evaluation.

Prices, Markets and Marketing of Crude Oil and Natural Gas

Oil and natural gas are commodities whose prices are determined based on world demand, supply and other factors, all of which are beyond the control of Pennine. World prices for oil and natural gas have fluctuated widely in recent years. Any material decline in prices could result in a reduction of net production revenue. Certain wells or other projects may become uneconomic as a result of a decline in world oil prices and natural gas prices, leading to a reduction in the volume of Pennine's oil and gas reserves. Pennine might also elect not to produce from certain wells at lower prices. All of these factors could result in a material decrease in Pennine's future net production revenue, causing a reduction in its oil and gas acquisition and development activities. In addition, bank borrowings available to Pennine are expected to be determined in part by the borrowing base of Pennine. A sustained material decline in prices from historical average prices could limit Pennine's borrowing base, therefore reducing the bank credit available to Pennine, and could require that a portion of any existing bank debt of Pennine be repaid.

In addition to establishing markets for its oil and natural gas, Pennine must also successfully market its oil and natural gas to prospective buyers. The marketability and price of oil and natural gas which may be acquired or discovered by Pennine will be affected by numerous factors beyond its control. Pennine will be affected by the differential between the price paid by refiners for light quality oil and the grades of oil produced by Pennine. The ability of Pennine to market its natural gas may depend upon its ability to acquire space on pipelines which deliver natural gas to commercial markets. Pennine will also likely be affected by deliverability uncertainties related to the proximity of its reserves to pipelines and processing facilities and related to operational problems with such pipelines and facilities and extensive government regulation relating to price, taxes, royalties, land tenure, allowable production, the export of oil and natural gas and many other aspects of the oil and natural gas business.

Pennine’s portfolio consists of heavy crude oil and natural gas as a result of the asset acquisition in April 2014 and June 2015. Pennine continually monitors the movement of commodity prices, interest rates and adjusts its capital expenditure program accordingly.

Substantial Capital Requirements; Liquidity

Pennine's cash flow from its production and sales of petroleum and natural gas may not, at all times be sufficient to fund its ongoing activities. From time to time, Pennine may require additional financing in order to carry out its oil and gas acquisition, exploration and development activities. Failure to obtain such financing on a timely basis could cause Pennine to forfeit its interest in certain properties, miss certain acquisition opportunities and reduce or terminate its operations. If Pennine's revenues from its production of petroleum and natural gas decrease as a result of lower oil and natural gas prices or otherwise, it may affect Pennine's ability to expend the necessary capital to replace its reserves or to maintain its production. If Pennine's funds from operations are not sufficient to satisfy its capital expenditure requirements, there can be no assurance that additional debt or equity financing will be available to meet these requirements or available on terms acceptable to Pennine.

Pennine's lenders will be provided with security over substantially all of the assets of Pennine. If Pennine becomes unable to pay its debt service charges or otherwise commits an event of default, such as bankruptcy, these lenders may foreclose on or sell Pennine's properties. The proceeds of any such sale would be applied to satisfy amounts owed to Pennine's lenders and other creditors and only the remainder, if any, would be available to Pennine.

Pennine monitors and updates its cash projection models on a regular basis which assists in the timing decision of capital expenditures. Farm-outs of projects may be arranged if capital constraints are an issue or if the risk profile dictates that the Company wish to hold a lesser working interest position. Equity, if available and if on reasonable terms, may be utilized to help fund Pennine’s capital program.

Access to Capital
Access to capital has become limited during these times of economic uncertainty. To the extent the external sources of capital become limited or unavailable. Pennine’s ability to make the necessary capital investments to maintain or expand oil and gas reserves may be impaired.

Credit Exposure
Recent economic conditions have increased the risk that certain counterparties for the Company’s oil and gas sales and our joint venture partners may fail to pay. Pennine mitigates these increased risks through diversification and a review process of the credit worthiness of our counterparties.

Pennine’s policy to mitigate credit risk associated with product sales is to maintain marketing relationships with large, established and reputable purchasers that are considered creditworthy. Pennine has not experienced any collection issues with its petroleum and natural gas marketers. Joint venture receivables are typically collected within two to three months of the joint venture bill being issued to the partner. Pennine attempts to mitigate the risk from joint venture receivables by obtaining partner approval of significant capital and operating expenditures prior to expenditure and in certain circumstances may require cash deposits in advance of incurring financial obligations on behalf of joint venture partners.

Joint venture receivables are from partners in the petroleum and natural gas industry who are subject to the risks and conditions of the industry. Significant changes in industry conditions and risks that negatively impact partners’ ability to generate cash flow will increase the risk of not collecting receivables. Pennine does not typically obtain collateral from petroleum and natural gas marketers or joint venture partners; however the Company does have the ability to withhold production from joint venture partners in the event of non-payment or may be able to register security on the assets of joint venture partners.

Health, Safety and Environment
All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of federal, provincial and local laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with oil and natural gas operations. The legislation also requires that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a breach of applicable environmental legislation may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in

stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. The discharge of oil, natural gas or other pollutants into the air, soil or water may give rise to liabilities to governments and third parties and may require the Corporation to incur costs to remedy such discharge.

There are potential risks to the environment inherent in the business activities of the Company. Pennine has developed and implemented policies and procedures to mitigate health, safety and environment (HS&E) risks. Pennine mitigates HS&E risks by maintaining its wells and complying with all regulations. Regular field inspections are also carried out to ensure that all field personnel and third party contractors comply with all company and regulatory guidelines. An action plan has been developed to ensure inactive wells are suspended properly and abandoned in a timely fashion. The above noted policies and procedures are designed to protect and maintain the environment and to ensure that the employees, contractors, subcontractors and the public at large are kept safe at all times.

Insurance
Pennine's involvement in the exploration for and development of oil and gas properties may result in Pennine becoming subject to liability for pollution, blow-outs, property damage, personal injury or other hazards. Although Pennine has insurance in accordance with industry standards to address such risks, such insurance has limitations on liability that may not be sufficient to cover the full extent of such liabilities. In addition, such risks may not, in all circumstances be insurable or, in certain circumstances, Pennine may elect not to obtain insurance to deal with specific risks due to the high premiums associated with such insurance or other reasons. The payment of such uninsured liabilities would reduce the funds available to Pennine. The occurrence of a significant event that Pennine is not fully insured against, or the insolvency of the insurer of such event, could have a material adverse effect on Pennine's financial position, results of operations or prospects.

Competition
Pennine actively competes for reserve acquisitions, exploration leases, licenses and concessions and skilled industry personnel with a substantial number of other oil and gas companies, many of which have significantly greater financial and personnel resources than Pennine. Pennine's competitors include major integrated oil and natural gas companies and numerous other independent oil and natural gas companies and individual producers and operators.

Certain of Pennine's customers and potential customers are themselves exploring for oil and natural gas, and the results of such exploration efforts could affect Pennine's ability to sell or supply oil or gas to these customers in the future. Pennine's ability to successfully bid on and acquire additional property rights, to discover reserves, to participate in drilling opportunities and to identify and enter into commercial arrangements with customers will be dependent upon developing and maintaining close working relationships with its future industry partners and joint operators and its ability to select and evaluate suitable properties and to consummate transactions in a highly competitive environment.

Social License to Operate
Heightened public monitoring and regulation of hydrocarbon resource producers, refiners, distributors and commercial/retail sellers, especially where their activities carry the potential for having negative impacts on communities and the environment, involves varying degrees of risk to the Company’s reputation, relations with landowners and regulators, and in extreme cases even the ability to operate. Pennine maintains an active website that complies with Exchange requirements for timely disclosure and is the primary means of communicating to the general public when required. While media attention and public perception remaining largely beyond the control of Pennine’s executive, employees, contractors and directors, the Company makes every effort in its corporate and field operations to engage all stakeholders in a respectful and transparent manner.