



Q4 and year end report December 31, 2016



## Letter to Shareholders

Dear Friends and Fellow Shareholders of Maha Energy AB,

Upon the Agencia Nacional Petroelo (ANP) providing its clearance, Maha completed the acquisition of UPP, (the operator) and PVEB (a joint venture partner) to acquire legal and beneficial ownership of a 75% working interest in the Tartaruga field. Maha has now transitioned the take-over of the Field level operations and completed the long-anticipated workover of the second production well (SES 107D) at Tartaruga. The results of the workover were well in line with our expectations, with total production from the field doubling. The use of a simple hydraulic jet pump to effectively double production is an excellent example of Maha's core philosophy – adding value to underperforming assets through the implementation of modern technology.

There were serious technical challenges to overcome; the most challenging of which was excessive associated gas due to the reduced reservoir pressure. Not unlike opening a carbonated beverage, when the pressure at the well was reduced, gas came out of the solution as small bubbles. Pumping fluid mixed with air greatly reduces pump efficiency. This is especially so where gas is plentiful 3,000 m below surface. By sizing and choosing the right pumping system and doing a proper clean out the wellbore the problem was solved.

Our share price continues to do well. During the fourth quarter our shareholding base expanded to over 5,000 shareholders. There is even a dedicated Facebook group of about 4,000 members! Liquidity remains high and interest in Scandinavia continues to grow. Our second largest shareholding base is in Denmark.

At LAK Ranch, Maha's 'hot water' flood continues. During the last quarter, we saw a stabilization of production from our limited injection area and the re-pressurization of the reservoir. We have begun planning a Jet Vac procedure for 4 production wells. As these wells continue to produce below their theoretical capability, we strongly suspect serious completion and/or formation damage. The Jet Vac procedure will achieve two objectives; (a) the clean out of flour-like coagulated oil sand that is blocking the small holes in the production tubing, and (b) reduce the bottom hole pressure so as to create Inflow Performance Curves. This will allow our technical team to predict well productivity.

Finally, we are excited about the previously announced agreement to purchase 100% of Gran Tierra Energy's (GTE) Brazilian assets. We spent the better part of the 4<sup>th</sup> quarter negotiating the Agreement with GTE and it was finally signed in February this year. Gran Tierra has been keen to exit Brazil so they could focus on their Colombia and Mexico operations. As Brazil accounted for less than 1/30<sup>th</sup> of GTE's production, it made more sense for them to focus on Colombia.

There are clear synergies between the GTE assets and our Tartaruga field that will result in added significant value.

It is exciting times at Maha!

Sincerely,

"Jonas Lindvall"

Managing Director and CEO

This report is a review of Maha Energy AB (the “Company” or “Maha (Sweden)”) results and management’s analysis of its financial performance for the quarter and year ended December 31, 2016. It is dated February 28, 2017. The financial statements included have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and adopted by the European Union (EU). The accounting policies used are set out in Note 3 to the Q4 financial statements. All amounts are expressed in United States Dollars (USD) unless otherwise indicated.

## Overview

Maha Energy AB is an independent, Swedish-based, international upstream oil and gas Company whose business activities include the exploration for and development and production of crude oil, natural gas liquids and natural gas.

The head office is located at Biblioteksgatan 1, 4th floor, 111 46 Stockholm, Sweden. The Company maintains a technical support office at Suite 1140, 10201 Southport Road SW, Calgary, Alberta, Canada T2W 4X9. The Company has an operations office in Newcastle, Wyoming, USA and in Aracaju, Brazil.

Maha Energy AB was incorporated on June 16, 2015 under the Swedish Companies Act and was registered by the Swedish Companies Registration Office on July 1, 2015. Maha Energy Inc. (“Maha (Canada)”) was incorporated on January 23, 2013 pursuant to the Alberta Business Corporations Act. Maha (Canada) began operations on February 1, 2013.

### LAK Ranch -

The Company’s main asset at December 31, 2016 is the LAK Ranch oil field, located on the eastern edge of the multi-billion barrel Powder River Basin in Wyoming, USA. As at December 31, 2016, the Company held a 99% working interest in and operates the field.

### Canadian Assets -

The Company also owns a 50% working interest in the Manitou property and a 30% working interest in the Marwayne property which were acquired from Palliser Oil and Gas Corp. in July 2014. Both these assets (the “Canadian Assets”) are located in Canada.

In February 2017, Maha entered into an agreement to sell its interest in the Canadian Assets to Petrocapita Oil and Gas L.P. for a total of CAD\$1,650,000. The consideration is payable in two parts: (a) cash payments totaling CAD\$750,000 to be paid over 9 months commencing March 15, 2017 and (b) the balance by Convertible Debenture granted by Petrocapita Income Trust, the parent of Petrocapita, maturing December 1, 2023.

### Tartaruga (Brazil) -

During 2016, the Company entered into purchase and sale agreements with two companies to acquire a 75% operated interest in an onshore production block located in the Sergipe Alagoas Basin in Brazil. The acquisition was subject to regulatory approvals by the Brazilian Government and the Brazilian National Oil Agency (ANP) which were obtained on November 29, 2016 and the purchase of the interest was legally and beneficially completed in January 2017.

### Gran Tierra acquisition -

In February 2017, Maha entered into an agreement to acquire the Brazil business unit of Gran Tierra Energy Inc. for cash consideration of \$35 million. Upon closing, Maha will own and operate, through a wholly-owned subsidiary, the 100% working interests in six concession agreements located in the Reconcavo Basin of Brazil. Closing of the Acquisition is subject to receiving the approval of the ANP, completion of a financing by Maha, and other closing conditions standard for similar transactions.

## Strategy

The Company’s business activities include the exploration for and development and production of hydrocarbons. The Company’s core expertise is in primary, secondary and enhanced oil and gas recovery technologies and, as such, its business strategy is to target and develop underperforming hydrocarbon assets. By focusing on assets with proven hydrocarbon presence and applying modern and tailored technology solutions to recover the hydrocarbons in place, the Company’s primary risk is not uncertainty in reservoir content but in the fluid extraction.

The board of directors of the Company may, in its discretion, approve asset or corporate acquisitions or investments that do not conform to the guidelines

discussed above based upon the board of directors' consideration of the qualitative and quantitative aspects of the subject properties, including risk profile, technical upside, resource potential, reserve life and asset quality.

## Listing on Nasdaq First North Stockholm

On July 29, 2016, Maha Energy AB's class A shares (trading symbol Maha A) and share purchase warrants (trading symbol Maha A TO 1) commenced trading on the Nasdaq First North Stockholm stock exchange. Concurrent with the listing on the First North stock exchange, the Company completed a financing (the "Offering") at 19 SEK per unit whereby each unit consisted of 4 Class A shares and 1 share purchase warrant. The Company raised SEK 108.0 million SEK (US\$ 12.6 million as at final closing date, August 5, 2016 US\$/SEK exchange rate 8.56) in cash proceeds and issued 6,204,963 units (24,819,852 A-Shares and 6,204,963 share purchase warrants) including 513,010 units that were issued to the Guarantor group as payment of 9% fees owed under the guarantee agreements.

The Company is using the proceeds from the Offering along with the existing working capital to:

- fund the acquisitions in Brazil;
- fund drilling and workover operations in Brazil;
- start the initial phase 3 development at the Company's LAK asset in Wyoming;
- fund general and administrative expenses.

## Share data

As at December 31, 2016 the Company had 68,662,994 shares outstanding of which 56,522,199 were class A shares and 12,140,795 were class B shares. In addition, Maha (Sweden) there were an additional 4,492,527 convertible class C shares (C1 and C2). During the reporting period, all convertible C1 shares (1,844,527) were redeemed at no cost to the Company and cancelled. In the event that the existing Maha (Canada) stock options and warrants are exercised these convertible class C2 shares will be redeemed and exchanged for Maha (Sweden) Class A shares.

On November 2, 2016, Maha AB closed a directed share issue of 484,212 shares at a market price of SEK 10.25 per share. This was completed to cure a breach of a Guarantor's "lock up" agreement.

The Company does not plan to distribute any dividends in 2017.

## Brazil Acquisitions

### TDC Acquisition –

On January 25, 2017, the Company completed the purchase of a 30.0% working interest in the Tartaruga development block, located in the Sergipe Alagoas Basin of Brazil, by way of acquisition the vendor's wholly-owned Brazilian subsidiary UPP (the "TDC Acquisition"). UPP is the operator of the Tartaruga field. After adjustments, the acquisition price was \$2,904,825 million of which US\$500,000 was paid by way of a refundable deposit made on March 22, 2016 with the remaining \$2,404,825 paid into escrow in December 2016. These amounts were included in Deposits and loans on Brazil acquisition at December 31, 2016. The funds were released from escrow on closing.

In order to secure full beneficial ownership of 7.5% working interest in the Tartaruga field that was to have been consolidated into UPP from its affiliated company TDC Brazil Ltda ("TDCB") prior to closing but was not because of unforeseen delays, the parties to the TDC Acquisition have agreed to allow Maha to own the entire share capital of TDCB until the consolidation is complete. While the consolidation of the interest is subject to certain Brazilian Government and the ANP approvals because the transfer is as between concessionaires these are considered routine.

### PVE Acquisition –

On January 13, 2017, Maha completed the purchase of a non-operated 37.5% working interest in the Tartaruga development block (the "PVE Acquisition"). Maha had entered into agreements with the vendor whereby funds were provided to resolve outstanding joint interest billings for \$901,500, of which \$815,500 were given as forgivable loans. These funds became part of the purchase price of the working interest. In addition to the loans and other joint interest payments, the Company paid \$1,783,512 into escrow in December 2016. These funds were released from escrow on closing. The total purchase price is \$2,685,512. The loan amounts were included in Deposits and loans on Brazil acquisition at December 31, 2016.

Upon closing of the second part of the TDC acquisition, the Company became the operator and will hold a 75% working interest in the Tartaruga Block.

## Gran Tierra Acquisition –

In February 2017, Maha entered into an agreement to acquire the Brazil business unit of Gran Tierra Energy Inc. ("**Gran Tierra**") (NYSE MKT:GTE)(TSX:GTE) through the purchase of all of the shares and outstanding intercompany debt of Gran Tierra Finance (Luxembourg) S.Á.R.L., including assumed liabilities involved with the going-concern operations, for a cash consideration of \$35 million, subject to closing adjustments (the "**Acquisition**"). Upon closing, Maha will own and operate, through a wholly-owned subsidiary, the 100% working interests in six concession agreements located in the Reconcavo Basin of Brazil. Closing of the Acquisition is subject to receiving the approval of the ANP, completion of a financing by Maha, and other closing conditions standard for similar transactions.

In January 2017 Maha provided Gran Tierra a cash deposit ("**Initial Deposit**") of \$3.5 million which is non-refundable in certain circumstances, including if the Company has not deposited into escrow the remaining cash consideration of \$31.5 million on or before June 1, 2017 or has not provided a further cash deposit ("**Second Deposit**") of \$1.5 million by such date. If the Second Deposit is paid, the Company is required to place into escrow the remaining cash consideration of \$30 million by August 1, 2017. The \$35 million purchase price will be released upon all closing conditions being satisfied, including receiving the approval of the Acquisition from ANP.

## Results of operations

### Operations

#### **Canadian Assets**

For the twelve months ended December 31, 2016, the Company generated revenue of \$277,381 on an average sales volume of 30 boepd compared with \$634,934 of revenue during the twelve months ended December 31, 2015 from an average of 55 boepd. Lower production volumes were a result of lower field activity due to a change in operatorship and lower oil prices.

The crude oil produced from the Manitou and Marwayne areas is 12° API. The Canadian Assets produced a total of 11,113 barrels net to Maha in the twelve months of 2016. The average price received was \$24.98.

Operating costs associated with the Canadian Assets were \$185,484 for the twelve months ended December 31, 2016 compared with \$383,777 for the comparable period ended December 31, 2015. Lower operating costs in 2016 were due to lower field activity.

In May 2016, the operator of the Canadian Assets, which had been in receivership since February 2015, was purchased by a Canadian Company.

In February 2017, Maha entered into an agreement to sell its interest in the Canadian Assets to the new owner, Petrocapita Oil and Gas L.P., for CAD\$1,650,000. The consideration is payable in two parts: (a) cash payments totaling CAD\$750,000 to be paid over 9 months commencing March 15, 2017 and (b) the balance by Convertible Debenture granted by Petrocapita Income Trust, the parent of Petrocapita, maturing December 1, 2023.

As a result of the successful purchase of the operator by Petrocapita and the subsequent agreement to purchase Maha's interest, the Company's estimate of the value of the Canadian Assets increased to the value of the cash consideration of \$562,022 (CAD\$750,000) by reversing previously recorded impairment charges.

#### **LAK Ranch**

As at December 31, 2016, the LAK Ranch asset is considered to be in the pre-production stage and is currently undergoing delineation and pre-development work. As such, operating costs net of revenues since the commencement of operations have been capitalized as part of exploration and evaluation costs.

The LAK field was shut in from April 2016 until August 2016, primarily due to low oil prices and the requirement for reservoir pressure maintenance. During the shut-in period, the Company commenced the capital investment to allow for produced water recycling, which is critical for handling of produced water and re-injection of water for pressure maintenance. The project was completed in August and production from a limited number of wells was re-established by the end of August 2016.

For the year ended December 31, 2016, the Company generated revenue of \$177,261 on an average sales volume of 27 boepd compared with \$299,742 of revenue during the year ended December 31, 2015 from an average of 24 boepd. Lower production volumes were a primarily the result of the field wide shut in.



The crude oil produced from the LAK area is 19° API. The LAK Ranch oil field produced a total of 5,725 barrels, net to Maha, in 2016. The average price received was USD 34.34.

Technical work completed during 2015 and 2016 has laid the groundwork for the full field development plan. The full field development plan contemplates hot water injection, rather than steam playing a more significant role than originally anticipated. The extra cost of hot water injector wells are far offset by the elimination of steam requirements.

### *General and administrative*

During the year ended December 31, 2016, general and administrative (“G&A”) costs were \$2,321,761 compared to \$1,360,700 for the same period of 2015. The increase in costs primarily related to marketing of the IPO and listing on the Nasdaq First North and related professional fees.

### **Liquidity and capital resources**

The Company is in the oil exploration and development business and is exposed to a number of risks and uncertainties inherent to the oil industry. This activity is capital intensive at all stages and subject to fluctuations in oil prices, market sentiment, currencies, inflation and other risks. The Company currently has insufficient cash flow from production, and relies primarily on equity to fund its development and administrative activities. Material increases or decreases in the Company’s liquidity may be substantially determined by the success or failure of its development activities, as well as its continued ability to raise capital or debt.

### **Financial instruments and risks**

At December 31, 2016, the Company’s financial instruments consist of cash and cash equivalents, accounts receivable and accounts payable.

The Company classifies its cash and cash equivalents as fair value through profit or loss, its accounts receivable as loans and receivables, and its accounts payable as other financial liabilities. IFRS 7 Financial Instruments – Disclosures establishes a fair value hierarchy based on the level of independent, objective evidence surrounding the inputs used to measure fair value.

The Company thoroughly examines the various financial instrument risks to which it is exposed, and assesses the impact and likelihood of those risks.

Where material, these risks are reviewed and monitored by management. There have not been any significant changes from the Offering documents on how these risks are reviewed and monitored by management. The types of financial instrument risk exposures and the objectives and policies for managing these risks exposures is described below:

#### (a) Currency risk

At December 31, 2016, the Company’s expenditures are predominantly in USD, CAD and Swedish Kronor (SEK), and any future equity raised is expected to be in Swedish Kronor. Future project exploration and development expenditures are expected to be paid primarily in USD. A significant change in the relative currency exchange rates between the Canadian, Swedish Kronor and the USD could have an effect on the Company’s results of operations, financial position and cash flows. The Company has not hedged its exposure to currency fluctuations. As such, the Company is subject to risk due to fluctuations in the exchange rates for the USD, Canadian and Swedish Kronor.

For the preparation of the Q4 financial statements, the company used a foreign currency rate of \$1 equals SEK 9.1073 as the period end rate at December 31, 2016 and \$1 equal SEK 8.5443 as an average rate for the year then ended.

#### (b) Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations.

The Company’s cash and cash equivalents are held at large Canadian and Swedish financial institutions in non-interest bearing accounts.

The Company has made forgivable loans and refundable deposits as part of the PVE and TDC Acquisitions. These loans and deposits are secured by shares of the Brazilians subsidiaries’ of the vendors. In the event that the PVE and TDC Acquisitions were not approved the loans and deposits would be at risk to the extent the shares offered as security were unenforceable.

#### (c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through its management of capital as outlined in note 12 to the

Interim Financial Statements. Accounts payable relating to oil and gas interests and other accounts payable and accrued liabilities are due within the current operating period.

The Company has positive working capital of US\$6,691,461 as at December 31, 2016. As the Company's LAK Project is in the pre-production phase of development no assurance can be given that the budgeted production levels necessary for positive cash flow will be achieved. Operating activities and expenditures may increase or decrease, depending on the rate of success during the pre-production phase.

(d) Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The risk that the Company will realize a loss as a result of a decline in the fair value of the short-term investments included in cash and cash equivalents is minimal.

(e) Price risk

The Company is exposed to price risk with respect to commodity prices.

## Legal matters

None outstanding.

## Seasonal effects

Maha Energy has no significant seasonal variations.

Approved by the Board

``Jonas Lindvall``  
Jonas Lindvall, Director

``Wayne Thomson``  
Wayne Thomson, Director

# Maha Energy AB

## Consolidated Statement of Financial Position

	As At December 31 2016	As At December 31 2015
(Expressed in U.S. dollars)		
<b>Assets</b>		
Current assets		
Cash	\$ 6,757,669	\$ 4,592,780
Accounts receivable	114,781	103,622
Prepaid expenses and other	232,608	53,615
	<b>7,105,058</b>	<b>4,750,017</b>
Non-current assets		
Deposits and loans on Brazil acquisition (Note 5)	5,589,837	-
Exploration and evaluation assets (Note 6)	17,174,464	16,314,660
Property and equipment (Note 7)	2,313,444	1,745,058
Performance bonds and other (Note 8)	150,861	161,595
	<b>\$ 32,333,664</b>	<b>\$ 22,971,330</b>
<b>Liabilities</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 368,597	\$ 350,461
Non-current liability		
Decommissioning provision (Note 9)	828,835	834,685
	<b>1,197,432</b>	<b>1,185,146</b>
<b>Shareholders' equity (Note 10)</b>	<b>31,136,232</b>	<b>21,786,184</b>
	<b>\$32,333,664</b>	<b>\$ 22,971,330</b>



## Maha Energy AB

### Consolidated Statement of Operations and Comprehensive Loss

(Expressed in U.S. dollars)

	Quarter ended December 31		Year Ended December 31	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
<b>Oil sales</b>	47,078	\$ 75,661	\$ 227,381	\$ 634,934
Less: royalties	4,786	8,992	20,165	99,881
<b>Revenue from the sale of oil and gas</b>	42,292	66,669	207,216	535,053
<b>Expenses</b>				
Production and operating	35,997	71,261	185,484	383,778
General and administration	702,530	360,708	2,321,761	1,360,700
Stock-based compensation (Note 10)	27,787	53,373	142,958	171,866
Impairment of PPE & E&E (Note 7)	(562,022)	1,545,756	(562,022)	2,163,207
Depletion, depreciation and accretion (Notes 7 & 9)	19,353	52,490	78,977	395,226
Foreign currency translation loss/(gain)	(95,084)	(22)	(85,240)	(35,444)
	128,561	2,083,566	2,081,918	4,439,333
Loss for the period	(86,269)	(2,016,897)	(1,874,702)	(3,904,280)
Currency translation losses	666,366	-	738,047	-
<b>Comprehensive loss for the period</b>	(752,635)	(2,016,897)	(2,612,749)	(3,904,280)
Basic and diluted earnings (loss) per common share	(0.00)	(0.05)	(0.03)	(0.09)
Weighted average number of common shares outstanding	68,389,309	43,258,778	54,164,133	43,233,784

## Maha Energy AB

### Consolidated Statement of Changes in Equity for the years ended December 31

(Expressed in U.S. dollars)

	\$
<b>Balance at January 1, 2015</b>	<b>25,481,914</b>
Warrants exercised for cash	36,684
Stock-based compensation	171,866
Translation differences	-
Net (loss) for the period	(3,904,280)
<b>Balance at December 31, 2015</b>	<b>21,786,184</b>
Shares issued for cash (net of share issue costs)	11,774,839
Stock-based compensation	142,958
Exercise of stock options	45,000
Loss for the year	(1,874,702)
Other comprehensive loss for the year	(738,047)
<b>Balance at December 31, 2016</b>	<b>31,136,232</b>

# Maha Energy AB

## Consolidated Statement of Cash Flows

(Expressed in U.S. dollars)

	Quarter ended December 31		Year ended December 31	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
<b>Loss for the period</b>	<b>\$(86,269)</b>	<b>\$(2,016,897)</b>	<b>\$(1,874,702)</b>	<b>\$(3,904,280)</b>
<b>Operating activities</b>				
Add backs:				
Stock based compensation	27,787	53,373	142,958	171,866
Impairment	(562,022)	1,545,756	(562,022)	2,163,207
Depletion, depreciation and accretion	19,353	52,490	78,977	395,226
Unrealized foreign exchange (gain)/loss	(672,486)	(18,971)	(730,042)	(57,057)
Changes in non-cash working capital (Note 14)	21,793	71,550	(169,663)	(68,627)
	<b>(1,251,844)</b>	<b>(312,699)</b>	<b>(3,114,494)</b>	<b>(1,299,665)</b>
<b>Investing activities</b>				
Brazil deposits & loans	(4,274,337)	-	(5,589,837)	-
Additions to developed and producing assets (Note 7)	(61,366)	(3,500)	(66,866)	(199,145)
Additions to exploration and evaluation assets (Note 6)	(121,427)	(468,369)	(892,134)	(2,551,084)
Redemption (purchase) of performance bonds (Note 8)	(66)	(66)	10,734	(264)
Changes in non-cash working capital (Note 14)	42,647	(114,277)	42,647	(1,645,321)
	<b>(4,414,549)</b>	<b>(586,212)</b>	<b>(6,495,456)</b>	<b>(4,395,814)</b>
<b>Financing activity activities</b>				
Common stock and warrants issued for cash (net of share issue costs)	549,422	900	11,774,839	36,684
Exercise of stock options	45,000	-	45,000	-
Changes in non-cash working capital (Note 14)	(50,279)	-	(45,000)	-
	<b>544,143</b>	<b>900</b>	<b>11,774,839</b>	<b>36,684</b>
<b>Net (decrease)/increase in cash during the period</b>	<b>(5,122,250)</b>	<b>(898,011)</b>	<b>2,164,889</b>	<b>(5,658,795)</b>
Cash and cash equivalents, beginning of period	11,879,919	5,490,791	4,592,780	10,251,575
<b>Cash and cash equivalents, end of period</b>	<b>6,757,669</b>	<b>4,592,780</b>	<b>6,757,669</b>	<b>4,592,780</b>

## Notes to the Financial Statements

For the quarters and years ended December 31, 2016 and 2015. (Tabular amounts are in US Dollars, unless otherwise stated).

### 1. Corporate information and basis of presentation

Maha Energy AB is engaged in the acquisition, exploration and development of oil and gas properties. The head office is located at Biblioteksgatan 1, 4th floor, 111 46 Stockholm, Sweden. The Company's subsidiary, Maha Energy Inc., maintains its technical office at Suite 1140, 10201 Southport Road SW, Calgary, Alberta, Canada T2W4X9. The Company has an operations office in Newcastle, Wyoming, USA.

Maha Energy AB ("the Company" or "Maha (Sweden)") was incorporated on June 16, 2015 under the Swedish Companies Act and was registered by the Swedish Companies Registration Office on July 1, 2015. Maha Energy Inc. ("Maha (Canada)"), was incorporated on January 23, 2013 pursuant to the Alberta Business Corporations Act. Maha (Canada) began its operations on February 1, 2013.

#### Roll up

In May 2016, Maha (Sweden) undertook a corporate restructuring (the "Roll Up") whereby the shareholders of Maha (Canada) elected to either acquire class A Shares in Maha (Sweden) or Exchangeable Maha (Canada) Shares (as defined in Note 10 "Share capital"). Upon completion of the Roll up, Maha (Canada) became a wholly-owned subsidiary of Maha (Sweden).

As a result of the Roll Up, Maha (Sweden) became the legal parent company of Maha (Canada). The Roll Up transaction did not meet the definition of a business combination in accordance with IFRS 3; Business Combinations, consequently these financial statements are issued under the legal parent, Maha Energy AB, but are deemed to be a continuation of the legal subsidiary, Maha Energy Inc. The capital structure reflects the number of shares and the stated share capital of Maha Energy AB.

These consolidated financial statements (the "Financial Statements") reflect the activity for the quarter and year ended December 31, 2016 and the 2015 comparative for Maha Energy Inc. for the quarter and year ended December 31, 2015.

### Presentation and Functional Currency

The Financial Statements are stated in United States dollars unless otherwise stated and have been prepared in accordance with International Financial Reporting Standards as adopted by the EU ("IFRS") applicable to the presentation of financial statements.

The preparation of financial statements in compliance with IFRS, requires management to make certain critical accounting estimates. It also requires management to exercise judgement in applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Statements are disclosed in Note 4.

The Company prepared these Financial Statements on a going concern basis, which contemplates the realization of assets and liabilities in the normal course of business as they become due. These Financial Statements have been prepared on a historical cost basis except as disclosed in the accounting policies below.

### 2. New and future accounting pronouncements

The following new standards and amendments have been issued but are not effective during the year ended December 31, 2016,

- IFRS 15; "Revenue from contracts with customers" deals with revenue recognition and establishes principles for reporting the nature, amount, timing, and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The standard replaces IAS 11 and IAS 18 and is effective for annual periods beginning on or after January 1, 2018. Early adoption is permitted.
- IFRS 9; "Financial Instruments" addresses the classification, measurement and recognition of financial assets and financial liabilities. The standard will replace IAS 39 and is effective for annual periods beginning on or after January 1, 2018. Early adoption is permitted.
- IFRS 16; "Leases" was issued in January 2016 and replaces IAS 17. The standard introduces a single lessee accounting model for leases with required recognition of assets and liabilities for most leases. The standard is

effective for fiscal years beginning on or after January 1, 2019 with early adoption permitted if the Company is also applying IFRS 15.

The Company is assessing the impact of the new standards.

### 3. Summary of significant accounting policies

The Financial Statements have been prepared in accordance with the IFRS adopted by the EU, and with the Swedish Financial Reporting Board recommendation, RFR1, complementary accounting rules for Groups, which specifies the supplementary information required in addition to IFRS standards, pursuant to the provisions of the Swedish Annual Accounts Act. This Report has been prepared in accordance with IAS 34 and the Swedish Annual Accounts Act, while the Parent Company accounts have been prepared in accordance with the Swedish Annual Accounts Act.

#### (a) Cash and cash equivalents

Cash and cash equivalents include cash in the bank and on hand and all highly liquid instruments with original maturities of three months or less at the time of issuance.

#### (b) Exploration and evaluation assets

Pre-license costs are recognized as an expense when incurred. Exploration and evaluation (“E&E”) costs, including the costs of acquiring licenses, exploratory drilling and completion costs, and directly attributable general and administrative costs are initially capitalized as either tangible or intangible E&E assets according to the nature of the asset acquired. These costs are accumulated in cost centers by field or exploration area pending determination of technical feasibility and commercial viability. Ongoing carrying costs including the costs of non-producing lease rentals are capitalized to E&E assets. Proceeds received from the sale of E&E assets are recorded as a reduction to the carrying value of the asset.

The technical feasibility and commercial viability of extracting a resource is considered to be determinable when proved reserves are determined to exist and these reserves can be commercially produced. A review of each exploration license or area is carried out, at least

annually, to assess whether proved reserves have been discovered. Upon determination of proved reserves which can be commercially produced, E&E assets attributable to those reserves are first tested for impairment and then reclassified from E&E assets to property and equipment.

#### (c) Property and equipment

Unless initially classified as E&E assets, all costs related to the acquisition, exploration and development of oil and natural gas properties are capitalized and are measured at historical cost less accumulated depletion and depreciation and accumulated impairment losses. These costs include proved property additions, development drilling and completions, costs for production facilities, decommissioning costs, and carrying costs. Repairs and maintenance costs are expensed as incurred. The Company does not capitalize indirect general and administrative overhead costs.

The difference between the proceeds from the disposition of oil and natural gas properties and the carrying value of accumulated costs of the properties sold will be recorded as gain or loss in the consolidated statement of operations and comprehensive loss in the period in which the disposition occurred.

Depreciation of corporate and other fixed assets is calculated using the straight line method over the useful lives of the assets.

#### (d) Impairment

Non-financial assets, including exploration and evaluation assets, are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable.

These factors 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 cash-generating units (“CGU”). The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs of disposal (“FVLCOD”).

In assessing value in use, 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. Value in use is generally computed by reference to the present value of future cash flows expected to be derived from production of proved and probable reserves.

E&E assets are 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.

An impairment loss is recognized in earnings if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount.

Impairment losses previously recognized are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of accumulated depletion and depreciation, if no impairment loss had been recognized.

*(e) Decommissioning Provision*

The Company's activities give rise to dismantling, decommissioning and site disturbance remediation activities. Provisions are made for the estimated cost of site restoration and capitalized in the relevant asset category.

The decommissioning provision is measured at the present value of management's best estimate of expenditure required to settle the present obligation at the statement of financial position date. Subsequent to initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as a finance cost whereas increases/decreases due to changes in the estimated future cash flows are recorded against the related asset. Actual costs incurred

upon settlement of the decommissioning provision is charged against the provision to the extent the provision was established.

*(f) Share-based compensation*

The Company has granted options to purchase common stock to directors, officers, employees, consultants and certain service providers under Maha (Canada)'s stock option plan. Share-based payments are measured at the fair value of the instruments issued and amortized over the vesting periods. The amount recognized as a stock-based payment expense during a reporting period is adjusted to reflect the number of awards expected to vest. The offset to this recorded cost is to contributed surplus.

The fair value of stock options is measured using the Black-Scholes option pricing model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility, weighted average expected life of the instrument (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on short-term government bonds). A forfeiture rate is estimated on the grant date and is subsequently adjusted to reflect the actual number of options that vest.

*(g) Loss per share*

Basic loss per share is computed by dividing the net loss applicable to common stock of the Company by the weighted average number of common shares outstanding for the relevant period.

Diluted loss per common share is computed by dividing the net income or loss applicable to common shares by the sum of the weighted average number of common shares issued and outstanding and all additional common shares that would have been outstanding, if potentially dilutive instruments were converted using the treasury method.

(h) *Income taxes*

Income tax expense is comprised of current and deferred income taxes. Income tax expense is recognized in profit and loss except to the extent that it relates to items recognized in other comprehensive income or directly in equity.

The Company utilizes the liability method of accounting for income taxes. Under the liability method, deferred income tax assets and liabilities are recognized to reflect the expected deferred tax consequences arising from temporary differences between the carrying value and the tax bases of the assets and liabilities. Deferred tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. Deferred income tax assets are recognized to the extent that it is more likely than not that the asset will be realized.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

(i) *Foreign currency translation*

Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which each entity operates ("functional currency"). The consolidated financial statements are presented in United States Dollars (US\$) which is the currency the Company has elected to use as its presentation currency. The functional currency of the parent company, Maha Energy AB, is the Swedish Kronor (SEK). The SEK is also the presentation currency of the parent company statements for Maha Energy AB. Management has determined that the functional currencies of the Company's subsidiaries are as follows:

<b>Subsidiary</b>	<b>Functional Currency</b>
Maha Energy Inc.	US\$
Maha Energy (USA) Inc.	US\$
Maha Energy 1 (Brazil) AB	SEK
Maha Energy 2 (Brazil) AB	SEK

Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange prevailing at the balance sheet date and foreign exchange currency differences are recognized in the income statement. Transactions in foreign currencies are translated at exchange rates prevailing at the transaction date. Exchange differences are included in financial income/expenses in the income statement. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the balance sheet rate of exchange.

The results and financial position of all the Company's consolidated operations that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement;
- income and expenses for each year are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- resulting exchange differences are recognized in the foreign currency translation reserve within other comprehensive loss. These amounts would be recognized in profit or loss if the subsidiary is disposed of.



(j) *Financial instruments*

All financial assets are initially recorded at fair value and classified into one of four categories: held to maturity, available-for-sale, loans and receivables, or at fair value through profit or loss ("FVTPL"). All financial liabilities are initially recorded at fair value and classified as either FVTPL or other financial liabilities.

Maha's financial instruments comprise of cash and cash equivalents, accounts receivable, performance bonds and accounts payable. At initial recognition management has classified financial assets and liabilities as follows:

(i) *Financial assets*

Cash and cash equivalents

Cash and cash equivalents are classified as FVTPL. Realized and unrealized gains and losses on financial assets carried at FVTPL are recognized in net income in the periods such gains and losses arise. Transaction costs related to these financial assets are included in net income when incurred.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses. Performance bonds and accounts receivable are classified as loans and receivables.

Impairment of financial assets

At each reporting date the Company assesses whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired, if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset or the group of financial assets.

(ii) *Financial liabilities*

Other financial liabilities

Financial liabilities classified as other financial liabilities are initially recognized at fair value net of any transaction costs directly attributable to the issuance of the instrument and subsequently carried at amortized cost using the effective interest rate method. This ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the statement of financial position. The Company has classified its accounts payable and accrued liabilities as other financial liabilities.

Trade and other payables represent liabilities for goods and services provided to the Company prior to the end of the period which are unpaid. Trade payable amounts are unsecured and are usually paid within 30 days of recognition.

(k) *Revenues*

Revenues associated with the production and sale of crude oil owned by the Company are recognized when title to the product passes to the purchaser, the amount can be measured reliably, the risks and rewards of ownership of the product have been transferred to the purchaser, and the Company no longer retains control over the product sold.

Proceeds from sale of crude oil prior to the commencement of commercial production are offset against capitalized costs for Company operations that are at the pre-production stage (Note 6).

(l) *Joint operations*

The Company accounts for activities as joint arrangements when the agreement of the Company and one or more of the other venturer(s) is required to approve all significant project decisions, thereby creating joint control of the operations. If the parties exercising joint control have the rights and obligations to the assets and obligations of the joint arrangement as a result of specific contractual agreements or because of the unincorporated nature of the joint arrangement, the Company accounts for the joint arrangement as a joint operation. The Company has no joint arrangements that are structured as an incorporated joint venture or

where the Company and the other venturer(s), acting jointly, only have the right to its net assets.

*(m) Business combinations*

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method in accordance with IFRS 3, Business Combinations. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given up, liabilities incurred or assumed, and equity instruments issued by the Corporation in exchange for control of the assets or acquiree. Goodwill is recognized when the consideration paid exceeds the aggregate fair values of the assets and liabilities acquired. Acquisition-related transaction costs are recognized in the statement of operations and comprehensive loss as incurred.

Producing property acquisitions are accounted for using the acquisition method. The cost of an acquisition is measured as the fair value of the consideration transferred at the date of completion of the acquisition. Acquisition costs incurred are expensed. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the Company's share of the identifiable net assets acquired is recorded as goodwill. If the cost of the acquisition is less than the Company's share of the net assets required, the difference is recognized directly in the statement of operations and comprehensive loss.

#### **4. Critical accounting estimates and judgments**

The Company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions. The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive income in the period of the change, if

the change affects that period only, or in the period of the change and future periods, if the change affects both.

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

*(a) Impairment Indicators and Discount Rate*

For purposes of impairment testing, developed and producing assets are aggregated into CGUs, based on separately identifiable and largely independent cash inflows. The determination of the Company's CGUs is subject to judgment.

The recoverable amount of CGUs and individual assets have been determined based on the higher of the value-in use calculations and fair values less costs of disposal ("FVLCD"). These calculations require the use of estimates and assumptions, including the discount rate. It is possible that the commodity price assumptions may change, which may impact the estimated life of the field and economical reserves recoverable and may require an adjustment to the carrying value of developed and producing assets. The Company monitors internal and external indicators of impairment relating to its assets and records adjustments, if necessary, at each reporting period date.

*(b) Reserve Estimates*

Reserve estimates impact a number of key areas, in particular, the valuation of property, plant and equipment and the calculation of depletion and depreciation. Developed and producing assets are depleted on a unit of production basis at a rate calculated by reference to proved and probable reserves determined in accordance with Canadian Securities Administrators National Instrument 51-101, Standards of Disclosure for Oil and Gas Activities and incorporating the estimated future cost of developing and extracting those reserves. Proved and probable reserves are estimated using independent reservoir engineering reports and represent the estimated quantities of crude oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered

commercially producible. Reserve estimates, although not reported as part of the Company's financial statements, can have a significant effect on net income (loss), assets and liabilities as a result of their impact on depletion and depreciation, decommissioning provisions, deferred taxes, asset impairments and business combinations. Independent reservoir engineers perform evaluations of the Company's oil and natural gas reserves on an annual basis. The estimation of reserves is an inherently complex process requiring significant judgment. Estimates of economically recoverable oil and natural gas reserves are based upon a number of variables and assumptions such as geoscientific interpretation, production forecasts, commodity prices, costs and related future cash flows, all of which may vary considerably from actual results. These estimates are expected to be revised upward or downward over time, as additional information such as reservoir performance becomes available or as economic conditions change.

*(c) Decommissioning provisions*

These provisions have been created based on the Company's internal estimates. Assumptions, based on the current economic environment, have been made which management believes are a reasonable basis upon which to estimate the future liability. These estimates take into account any material changes to the assumptions that occur and are reviewed regularly by management.

Estimates are reviewed every reporting period and are based on current regulatory requirements. Significant changes in estimates of contamination, restoration standards and techniques will result in changes to provisions from period to period. Actual rehabilitation costs will ultimately depend on future market prices for the rehabilitation costs which will reflect the market conditions at the time the rehabilitation costs are actually incurred. The final cost of the currently recognized rehabilitation provisions may be higher or lower than currently provided for.

*(d) Expenditures on exploration and evaluation assets*

The application of the Company's accounting policy for expenditures on exploration and evaluation assets requires judgment in determining whether it is likely that future economic benefits will flow to the Company, which may be based on assumptions about

future events or circumstances. Estimates and assumptions made may change if new information becomes available. If, after expenditure is capitalized, information becomes available suggesting that the recovery of expenditure is unlikely, the amount capitalized is written off in profit or loss in the period the new information becomes available.

The timing of when a project achieves technical feasibility and commercial viability involves judgement as it is determined based on a number of factors that can only be confirmed after a period of production history. In addition, new and evolving technologies may impact this assessment. The Company continues to monitor its project currently under development.

*(e) Business Combinations*

Business combinations are accounted for using the acquisition method of accounting. The determination of fair value often requires management to make assumptions and estimates about future events. The assumptions and estimates with respect to determining the fair value of exploration and evaluation assets and developed and producing assets acquired generally require the most judgment and include estimates of reserves acquired, forecast benchmark commodity prices and discount rates. Changes in any of the assumptions or estimates used in determining the fair value of acquired assets and liabilities could impact the amounts assigned to assets, liabilities and goodwill purchase price allocation. Future net earnings can be affected as a result of changes in future depletion and depreciation, asset impairment, decommissioning provisions or goodwill impairment.

*(f) Income taxes*

Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Company recognizes liabilities and contingencies for anticipated tax audit issues based on the Company's current understanding of the tax law. For matters where it is probable that an adjustment will be made, the Company records its best estimate being the tax liability including the related interest and penalties in the current tax provision. Management believes they have adequately provided for the probable outcome

of these matters. The Company has not recognized deferred tax assets relating to tax losses carried forward. Timing of utilization of the tax losses depends on the ability of the Company to generate taxable profits. The estimation of this timing is based on a number of factors including judgements of future commodity pricing and profitability.

*(g) Share-based payment transactions*

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield.

**6. Exploration and evaluation assets (“E&E”)**

As at December 31, 2016, the LAK Ranch Project had not established both technical feasibility and commercial viability and therefore remains classified as an E&E asset. Expenditures, net of revenues, for the LAK Ranch Project have been capitalized as E&E.

	<b>December 31, 2016</b>	<b>December 31, 2015</b>
	\$	\$
Balance beginning of period	16,314,660	13,301,041
Expenditures in the period	1,015,380	2,814,157
Transfer from Property & Equipment	-	618,743
Impairment	-	(156,208)
Incidental income from sale of crude oil	(155,576)	(263,073)
<b>Balance end of period</b>	<b>17,174,464</b>	<b>16,314,660</b>

The assumptions used for estimating fair value for share-based payment transactions are disclosed in Note 10.

**5. Deposits and Loan**

As at December 31, 2016 the Company has made refundable and non-refundable deposits, entered into secured loan agreements and placed funds into escrow as part of the acquisition of oil and gas assets in Brazil (see Note 15). The amounts are recorded as follows:

Forgivable loans	\$	815,500
Refundable deposit		500,000
Non-refundable deposits		86,000
Funds in escrow		4,188,337
<b>Total</b>	<b>\$</b>	<b>5,589,837</b>

All of the above will become part of the purchase price when the transactions are closed.

## 7. Property and equipment

Cost	Oil and gas properties \$	Equipment and Other \$	Total \$
<b>Balance at January 1, 2015</b>	<b>2,878,254</b>	<b>2,064,206</b>	<b>4,942,460</b>
Transferred to Exploration and Evaluation	-	(618,743)	(618,743)
Change in decommissioning estimate	7,909	-	7,909
Additions	48,369	150,777	199,146
<b>Balance at December 31, 2015</b>	<b>2,934,532</b>	<b>1,596,240</b>	<b>4,530,772</b>
Additions	-	66,866	66,866
<b>Balance, December 31, 2016</b>	<b>2,934,532</b>	<b>1,663,106</b>	<b>4,597,638</b>
<b>Accumulated depletion and depreciation</b>			
<b>Balance at January 1, 2015</b>	<b>341,000</b>	<b>60,839</b>	<b>401,839</b>
Additions	325,000	51,875	376,875
Impairments	2,007,000	-	2,007,000
<b>Balance at December 31, 2015</b>	<b>2,673,000</b>	<b>112,714</b>	<b>2,785,714</b>
Additions	-	60,502	60,502
Reverse prior period impairment	(562,022)	-	(562,022)
<b>Balance at December 31, 2016</b>	<b>2,110,978</b>	<b>173,216</b>	<b>2,284,194</b>
Carrying amount December 31, 2015	261,532	1,483,526	1,745,058
<b>Carrying amount December 31, 2016</b>	<b>823,554</b>	<b>1,489,890</b>	<b>2,313,444</b>

## 8. Performance bonds

The Company purchased performance bonds as required by the Wyoming Oil and Gas Conservation Commission and the operator of the property. The bonds bear interest at rates ranging from 0.25% to

0.35%. If the operator or the other working interest partners fail to remediate the well site, the bonds will be used to fund this obligation.

## 9. Decommissioning provision

The Company has calculated a decommissioning provision with respect to its LAK Ranch Project and developed and producing assets. The total estimated undiscounted amount of cash flow required to settle the decommissioning provision is approximately \$1.25 million, which will be incurred over the remaining life of the assets with the majority to be incurred between 2027 and 2038. The current year decommissioning provision recognizes the continuing obligation for the retirement of assets in which the estimate is based on the following assumptions:

Inflation	2.5%
Discount rate	1.50% - 2.50%

The following table presents the reconciliation of the opening and closing decommissioning provision:

<b>Balance at December 31, 2014</b>	<b>\$ 854,825</b>
Accretion expense	18,351
Change in estimates	7,909
Foreign exchange	(46,400)
<b>Balance at December 31, 2015</b>	<b>834,685</b>
Accretion expense	18,475
Foreign exchange movement	8,005
Change in estimate	(32,330)
<b>Balance at December 31, 2016</b>	<b>\$ 828,835</b>

## 10. Share Capital

### **Maha Energy AB Initial Public Offering**

On July 29, 2016, Maha Energy AB's class A shares (trading symbol "Maha A") and share purchase warrants (trading symbol "Maha A TO 1") commenced trading on the Nasdaq First North Stockholm stock exchange. Concurrent with the listing on the First North stock exchange, the Company completed a financing at 19 SEK per unit whereby each unit consisted of 4 Class A shares and 1 share purchase warrant. Under the financing, which closed August 5, 2016, the Company raised US\$ 12.6 million (SEK 108.1 million in cash proceeds and issued 6,204,963 units (24,819,852 Class A shares and 6,204,963 share purchase warrants) including 513,010 units with a value of USD 1.1 million (SEK 9.7 million) that were issued to the guarantor group as payment of fees owed under guarantee agreements.

### **Maha Energy AB Share Capital**

Maha Energy AB was acquired as a shelf company without previous operations for the purpose of becoming the parent company of Maha Energy Inc. According to the articles of association of Maha Energy AB, the share capital may not be less than SEK 517,000 (US\$ 60,500) and not more than SEK 2,068,000 (US\$ 242,000), divided into not fewer than 47,000,000 shares and not more than 188,000,000 shares. Shares may be issued in four (4) different classes and shall be divided between Class A (A-Shares), class B (Convertible B-Shares), class C1 (Convertible C1-Shares) and class C2 (Convertible C2-Shares). The A-Shares may be issued up to a number corresponding to 100% percent of the Maha Energy AB total share capital, the Convertible B-Shares may be issued to a number corresponding to 35% of the Maha Energy AB total share capital and the Convertible C-Shares may be issued to a number corresponding to 10% of the Maha Energy AB total share capital, of which Convertible C1-Shares may be issued to a number corresponding to 4% of the Maha Energy AB total share capital and Convertible C2-Shares may be issued to a number corresponding to 6% of the Maha Energy AB total share capital.

The rights associated with the shares issued by the Company, including those required by the articles of association may only be amended in accordance with the procedures set out in the Swedish Companies Act.

At shareholders' meetings each shareholder is, according to the Swedish Companies Act, entitled to vote for the full number of A-Shares, Convertible B-Shares or Convertible C-Shares that the shareholder owns or represents without restrictions to the entitlement to vote. Each A-Share and Convertible B-Share carries one vote per share. Each Convertible C1-Share carries one tenths (1/10) of a vote and each Convertible C2-Share carries two tenths (2/10) of a vote.

### **Roll Up**

On May 15, 2016, a corporate restructuring occurred (the "Roll Up") whereby the newly acquired Maha Energy AB became the parent company of Maha Energy Inc. by issuing 29,478,036 A-Shares and 13,609,394 Convertible B-Shares of Maha Energy AB. As a result of the Roll Up, Maha Energy AB became the legal parent company of Maha Energy Inc. The Roll Up transaction was accounted for as a reverse takeover and therefore the Financial Statements are a continuation of Maha Energy Inc. but the capital structure reflects the number of shares and the stated share capital of Maha Energy AB.

The A-Shares were issued against payment in kind in the form of an equal amount of common shares in Maha Energy Inc. while the Convertible B-Shares were issued in the form of an exchange of common shares in Maha Energy Inc. against exchangeable shares in Maha Energy Inc. (the "Exchangeable Maha Energy Inc. Shares").

Each Exchangeable Maha Energy Inc. share is exchangeable for a Maha Energy AB A-Share and, prior to such exchange, will have economic rights that are substantially equivalent to the Maha Energy AB A-Shares, including with respect to the payment of dividends equal to those paid to the holders of Maha Energy AB A-Shares and the rights on the liquidation or dissolution of Maha Energy Inc.. The Exchangeable Maha Energy Inc. shares will not have any right to the assets and liabilities of Maha Energy Inc.

The ability to acquire Exchangeable Maha Energy Inc. shares assists Canadian residents to defer capital gains tax otherwise incurred on the Roll Up. 15 Maha Energy Inc. shareholders, representing 13,609,394 shares elected to convert to Exchangeable Maha Energy Inc. Shares. For each Exchangeable Maha



Energy Inc. Share issued, one Convertible B-Share of Maha Energy AB was issued. The Convertible B-Shares are not entitled to dividends of Maha Energy AB. Pursuant to relevant support agreements a mechanism is in place to allow holders of Exchangeable Maha Energy Inc. shares to vote a corresponding number of Convertible B-Shares of Maha Energy AB, to receive similar dividends issued to holders of Maha Energy AB A-Shares and to convert such Exchangeable Maha Energy Inc. share for a Maha Energy AB A-Share.

The combined number, ownership and rights associated with Maha Energy AB A-Shares and Convertible B-Shares is substantially equal to the number of Maha Energy Inc. common shares prior to the Roll Up.

## Shares Outstanding

	Number of Shares by Class					Total
	A	B	C1	C2		
June 16, 2015 – Incorporation	50,000	-	-	-	-	50,000
May 20, 2016 – Roll Up						
Cancellation incorporation shares	(50,000)	-	-	-	-	(50,000)
Roll up	29,478,036	13,609,394	1,844,527	2,748,000		47,679,957
Initial Public Offering	24,819,852	-	-	-	-	24,819,852
Final closing of Roll up	171,500	-	-	-	-	171,500
Conversion of convertible B shares	1,468,599	(1,468,599)	-	-	-	-
Issuance of shares	484,212	-	-	-	-	484,212
Retraction of convertible C1 shares	-	-	(1,844,527)	-	-	(1,844,527)
Exercise of Maha (Canada) options	100,000	-	-	(100,000)	-	-
<b>December 31, 2016</b>	<b>56,522,199</b>	<b>12,140,795</b>	<b>-</b>	<b>2,648,000</b>	<b>-</b>	<b>71,310,994</b>

## Maha AB share purchase warrants outstanding

As part of the Offering, the Company issued common share purchase warrants, each convertible into one class A share of Maha Energy AB, upon payment of the exercise price. The warrants have an exercise price of SEK 6.40 and expire on January 15, 2018.

	Maha AB Share Purchase Warrant #	Exercise Price <sup>(1)</sup> \$
<b>Balance at December 31, 2015</b>	-	-
Granted	6,204,963	0.70
<b>Balance at December 31, 2016</b>	<b>6,204,963</b>	<b>\$0.70</b>

(1) Maha AB share purchase warrants have an exercise price of SEK 6.40 converted at the September US/SEK exchange rate of 9.11

## Maha Energy Inc. Stock options and share purchase warrants

### (a) Maha Energy Inc. stock option plan

The Company has also issued 4,592,527 Convertible C-Shares (Class C1 and C2) to AMHA Swedish Exchange Co AB (“Swedish Exchange Co”), a company created under the laws of Sweden to hold the Convertible B-Shares and the Convertible C-Shares. The Convertible C-Shares have been issued to facilitate delivery of shares under Maha Energy Inc.’s existing stock-based incentive plan and delivery of shares for the exercise of outstanding warrants

issued by Maha Energy Inc. during 2014. The intention is that the option and warrant holders shall become shareholders in Maha Energy AB instead of Maha Energy Inc. and in order to facilitate such exchange the Company has issued the Convertible C-Shares. Upon the acquisition of Maha Energy Inc. common shares by the option and warrant holders, such shares will be exchangeable for Convertible C-Shares in the Company. The Convertible C-Shares will thereafter be converted to a Maha Energy AB A-Shares. In the event all Convertible C-Shares are not exchanged for Maha Energy Inc. common shares and the relevant options and warrants have expired, such remaining Convertible C-Shares will be redeemed in accordance with the redemption clause in the Company's articles of association.

Maha Energy Inc. has a stock option plan which allows the Company to grant stock options, at exercise prices equal to or close to market price, in amounts up to 10% of the number of common shares issued. All of the options have a four to five-year term. The options were granted in 2014, 2015 and on January 1, 2016 and the remaining unvested options vest one-third on each anniversary date for the three years following the date of granting.

Expiration date	Number of Options #	Vested #	Exercise Price \$	Remaining Life Years
March 31, 2018	1,548,000	1,548,000	0.45	1.25
December 31, 2018	400,000	400,000	0.75	2.00
December 31, 2018	350,000	350,000	1.25	2.00
July 15, 2020	300,000	100,000	1.25	3.54
December 31, 2020	50,000	16,667	1.25	4.00
<b>Total outstanding</b>	<b>2,648,000</b>	<b>2,414,667</b>	<b>\$0.70</b>	<b>1.75</b>

On January 1, 2016, the Company issued to a key employee 50,000 stock options at an exercise price of \$1.25. By way of an option amending agreement signed as part of the Roll up, each option holder agreed to receive a class A share instead of a common share of Maha Energy Inc. upon exercise of the stock option. The value of the warrants and stock options issued during the period ended December 31, 2016 were calculated using the Black-Scholes model with the following assumptions:

	2016	2015
Expected term	5 years	5 years
Volatility	60%	60%
Expected dividend yield and forfeiture rate	nil	nil
Risk-free interest rate	0.90%	0.90%

The following stock options are outstanding at December 31, 2016:

	Number of Options #	Exercise Price \$
<b>Balance, December 31, 2014</b>	<b>2,400,000</b>	<b>0.62</b>
Granted	300,000	1.25
Exercised	(2,000)	0.45
<b>Balance, December 31, 2015</b>	<b>2,698,000</b>	<b>0.69</b>
Granted	50,000	1.25
Exercised	(100,000)	0.45
<b>Balance, December 31, 2016</b>	<b>2,648,000</b>	<b>0.70</b>

**(b) Maha Energy Inc. share purchase warrants outstanding**

Each of the Company's common share purchase warrants is convertible into one class A share of Maha Energy AB, upon payment of the exercise price. By way of a warrant amending agreement signed as part of the Roll up, each warrant holder agreed to receive a Class A share instead of a common share of Maha Energy Inc. upon exercise of the relevant Maha Energy Inc. warrants.

	Maha Energy Inc. Share Purchase Warrant #	Exercise Price \$
<b>Balance at December 31, 2014</b>	<b>2,635,405</b>	<b>\$1.36</b>
Exercised	(79,519)	0.45
Expired	(711,359)	0.45
<b>Balance at December 31, 2015</b>	<b>1,844,527</b>	<b>1.75</b>
Expired	(1,844,527)	1.75
<b>Balance at December 31, 2016</b>	<b>-</b>	<b>-</b>

**11. Financial instruments and risk**

The Company's financial assets and liabilities are comprised of cash and cash equivalents, accounts receivable, loans and deposits, performance bonds, and accounts payable.

The Company classifies the fair value of financial instruments measured at fair value according to the following hierarchy based on the amount of observable inputs used to value the instrument:

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.

Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

Fair values of financial assets and liabilities and discussion of risks associated with financial assets and liabilities are presented as follows:

*(a) Fair value risk*

The fair values of cash, accounts receivable, loans and deposits and accounts payable approximate their carrying amount due to the short-term maturity of those instruments. The fair value of the performance bonds approximates the carrying amount.

*(b) Currency risk*

As at December 31, 2016, the Company's capital expenditures are predominantly paid in US Dollars, and any future equity raised is expected to be predominantly in Swedish Krona. Future project exploration and development expenditures are expected to be paid primarily in US Dollars. Some of the Company's expenditures (general and administrative, revenues and operating expenses) are denominated in Canadian dollars. As such, significant change in the relative currency exchange rates between the Canadian dollar, Swedish Krona and the U.S. dollar could have an effect on the Company's results of operations, financial position and cash flows. The Company has not hedged its exposure to currency fluctuations. As such, the Company is subject to risk due to fluctuations in the exchange rates for Canadian dollar and Swedish Krona expenses incurred.

Of the Company's cash, \$3,060,838 is held at a large Canadian financial institution, \$77,531 is held at a local bank in Newcastle Wyoming and \$3,619,300 is held at a bank in Stockholm Sweden. Total cash consists of \$6,757,669 of which \$72,284 is held in CAD funds and \$3,627,481 is held in Swedish Krona (SEK).

(c) *Credit risk*

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations.

The Company has made loans and deposits as part of the acquisition of oil and gas assets in Brazil (Notes 6 and 15). These loans and deposits are secured by shares of the Brazilian subsidiaries of the vendors. In the event the acquisitions are not approved the loans and deposits will be at risk to the extent the shares offered as security are unenforceable.

(d) *Liquidity risk*

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.

The Company has working capital of \$6,691,461.

The Company manages liquidity risk through its management of capital as outlined in Note 12. Accounts payable relating to oil and gas interests and other accounts payable and accrued liabilities are due within the current operating period.

## 12. Management of capital

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern. The Company does not have any externally imposed capital requirements to which it is subject. As at December 31, 2016, the Company considers capital to consist of all components of shareholders' equity. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristic of the underlying assets. To maintain or adjust the capital structure, the Company may issue common stock, or dispose of assets.

In order to facilitate the management of its capital requirements, the Company prepares annual expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. The annual and updated budgets are approved by the Board of Directors.

## 13. Geographical information

The Company operates in Canada, Sweden and the United States of America. Segmented information by geographic area is as follows:

	Canada	US	Sweden	Total
<b>As at and for the year ended December 31, 2016</b>				
Impairment of PPE and E&E	(562,022)	-	-	<b>(562,022)</b>
Revenue	227,381	-	-	<b>227,381</b>
Non-current assets	832,540	18,744,863	5,651,203	<b>25,228,606</b>
Total assets	2,788,149	19,024,538	10,520,977	<b>32,333,664</b>
<b>As at and for the year ended December 31, 2015</b>				
Impairment of PPE and E&E	2,163,207	-	-	<b>2,163,207</b>
Revenue	634,934	-	-	<b>634,934</b>
Non-current assets	273,588	17,947,725	-	<b>18,221,313</b>
Total assets	4,888,056	18,083,274	-	<b>22,971,330</b>

## 14. Changes in non-cash working capital for the period

	Quarter ended		Year ended	
	December 31	December 31	December 31	December 31
	2016	2015	2016	2015
Change in:				
Accounts receivable	(56,849)	(70,262)	(11,159)	51,817
Prepaid expenses and deposits	(90,809)	7,500	(178,993)	(16,447)
Accounts payable and accrued liabilities	161,819	9,377	18,136	(1,759,976)
	14,161	(53,385)	(172,016)	(1,724,606)
Changes in non-cash working capital:				
Operating activities	21,793	71,550	(169,663)	(68,627)
Investing activities	42,647	(114,277)	42,647	(1,645,321)
Financing activities	(50,279)	-	(45,000)	-
Unrealized foreign exchange (gain)/loss	-	(10,658)	-	(10,658)
	14,161	(53,385)	(172,016)	(1,724,606)

## 15. Subsequent Events

### Brazil Acquisitions

#### PVE Acquisition –

On January 13, 2017, Maha completed the purchase of a non-operated 37.5% working interest in the Tartaruga development block, located in the Sergipe Alagoas Basin of Brazil (the “PVE Acquisition”). Maha had entered into loan agreements with the vendor whereby funds were provided to resolve outstanding joint interest billings for \$901,500. On closing these loans were forgiven and became part of the purchase price of the working interest. In addition to the loans, the Company paid \$1,783,512 into escrow in December 2016. These funds were released from escrow on closing. The total purchase price is \$2,685,012.

#### TDC Acquisition –

On January 25, 2017, the Company completed the purchase of an additional 30.0% working interest in the Tartaruga field by way of acquisition the vendor’s wholly-owned Brazilian subsidiary UPP (the “TDC Acquisition”). UPP is the operator of the Tartaruga field. After adjustments, the acquisition price was \$3,254,825 million (subject to post closing adjustments). US\$500,000 was paid by way of a refundable deposit made on March 22, 2016 and \$2,404,825 was paid into escrow in December 2016. There is a holdback of \$350,000 pending the Consolidation (see below). The funds were released from escrow on closing. In order to secure beneficial ownership of a 7.5% working interest in the Tartaruga field that was to have been consolidated into UPP prior to closing from its Brazil affiliate (the “Consolidation”) the parties to the TDC Acquisition have agreed Maha will own the outstanding share capital of the Brazil affiliate until the Consolidation is complete. The Consolidation remains subject to approval by the Brazilian Government and the Agencia Nacional do Petroleo, Gas Natural e Biocombustiveis of Brazil (“ANP”) however since the Consolidation is a transfer as between concessionaires it is considered routine.

#### Purchase price allocation -

A preliminary estimate of the net assets that will be acquired at closing is as follows:

Assets	
Oil and gas properties	\$8,100,000
Total Assets Acquired	<u>\$8,100,000</u>
Liabilities	\$1,100,000
Deferred tax	1,000,000
Working capital	<u>\$2,100,000</u>
Net Assets Acquired	<u>\$6,000,000</u>

## Sale of Canadian Assets

Maha has entered into a Purchase and Sale Agreement with Petrocapita Oil and Gas L.P. ("**Petrocapita**") under which Maha will sell Petrocapita its interest in the Manitou and Marwayne properties (the "**Canadian Assets**") for a total of CAD\$1,650,000. The consideration is payable in two parts: (a) cash payments totaling CAD\$750,000 to be paid over 9 months commencing March 15, 2017 and (b) the balance by convertible Debenture granted by Petrocapita Income Trust (the "**Trust**"), the parent of Petrocapita, maturing December 1, 2023 (the "**Debenture**"). Under the Debenture arrangement, the Trust pays annual interest on the outstanding balance at 6% and Maha may convert the outstanding balance at any time after December 31, 2017 to publically traded Trust Units based on the 20 day volume weighted average trading price of the Unit at the time of conversion. The outstanding balance will be secured by a registered charge on the Canadian Assets.

## Purchase of Gran Tierra Brazilian Assets and related financing

Maha entered into an agreement to acquire the Brazil business unit of Gran Tierra Energy Inc. ("**Gran Tierra**") (NYSE MKT:GTE)(TSX:GTE) through the purchase of all of the shares and outstanding intercompany debt of Gran Tierra Finance (Luxembourg) S.Á.R.L., including assumed liabilities involved with the going-concern operations, for a cash consideration of \$35 million, subject to closing adjustments (the "**Acquisition**"). Upon closing, Maha will own and operate, through a wholly-owned subsidiary, the 100% working interests in six concession agreements located in the Reconcavo Basin of Brazil. Closing of the Acquisition is subject to receiving the approval of the ANP, completion of a financing by Maha, and other closing conditions standard for similar transactions.

In January 2017 Maha provided Gran Tierra a cash deposit ("**Initial Deposit**") of \$3.5 million which is non-refundable in certain circumstances, including if the Company has not deposited into escrow the remaining cash consideration of \$31.5 million on or before June 1, 2017 or has not provided a further cash deposit ("**Second Deposit**") of \$1.5 million by such date. If the Second Deposit is paid, the Company is required to place into escrow the remaining cash consideration of \$30 million by August 1, 2017. The \$35 million purchase price will be released upon all closing conditions being satisfied, including receiving the approval of the Acquisition from ANP.

## Financing of the Transaction -

To complete the Acquisition, Maha will be required to pay cash consideration of \$35 million and arrange financial guarantees (letters of credit or surety bonds) for certain work commitments totaling approximately \$12 million. The Company has secured a Directed Share Issue of 12,919,326 Maha A-shares at a share price of SEK 7.10 for gross proceeds of SEK 91,727,214.60 (approximately \$10.5 million).

The Company will also arrange, through Stockholm Corporate Finance, a Rights Issue of 12,919,326 Maha A-shares at a share price of SEK 7.10 for gross proceeds of SEK 91,727,214.60. The Rights Issue has been fully guaranteed through a consortium. The Guaranteed Rights Issue is anticipated to commence March 15, 2017. This pricing reflects an approximately 19.9 percent discount from the five day, volume weighted average price of the Class A Shares for the period up to and including February 1, 2017. Debt financing with minimum gross proceeds of SEK 300 million is planned to take place on or before June 1, 2017.



## Parent Company Income Statement in Summary

(Unaudited - Expressed in SEK)	Year ended December 31	
	2016	2015
Net sales	-	-
Expenses	1,634,394	-
<b>Loss for the period*</b>	<b>(1,634,394)</b>	-

\*As there are no items in the parent company's other comprehensive income, no separate report on total comprehensive income is presented

## Parent Company Statement of Financial Position in Summary

As at (Expressed in SEK)	December 31 2016	December 31 2015
<b>Assets</b>		
Current assets	43,843,357	50,000
Loans to subsidiaries	60,480,137	50,000
Investment in subsidiaries	183,639,886	-
<b>Total assets</b>	<b>287,963,380</b>	<b>50,000</b>
Liabilities	566,315	-
Shareholders' equity	287,397,065	50,000
<b>Total equity and liabilities</b>	<b>287,963,380</b>	<b>50,000</b>

## Parent Company Statement of Changes in Equity in Summary

(Expressed in SEK)	Share capital and reserves	Deficit	Total Equity
Balance at July 1, 2015	50,000	-	50,000
Total comprehensive income	-	-	-
<b>Balance at December 31, 2015</b>	<b>50,000</b>	-	<b>50,000</b>
Comprehensive loss for the year	-	(1,634,394)	(1,634,394)
Shares issued – (net of issue costs)	105,441,573	-	105,441,573
Rollup	183,539,886	-	183,539,886
<b>Balance at December 31, 2016</b>	<b>289,031,459</b>	<b>(1,634,394)</b>	<b>287,397,065</b>

## Financial calendar

Annual report 2016 is expected to be available during the last week of April

First quarter report (January – March 2017) on May 30, 2017

Second quarter report (April - June 2017) on August 29, 2017

Third quarter report (July – September 2017) on November 29, 2017

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*This report has not been subject to review by the auditors of the company.*