



Report for the  
**THREE AND NINE MONTHS ENDED**  
**30 SEPTEMBER 2019**  
(org number: 559018-9543)



## Highlights

(all amounts are in US dollars unless otherwise noted)

### Third Quarter 2019

- Daily oil & gas production for Q3 2019 averaged 3,593 BOEPD (Q3 2018: 1,565 BOEPD).
- Effective August 1, 2019, the Company grew its Proven (1P) and Proven plus Probable (2P) reserves, by 14% and 62% respectively, at the Tie Field in Brazil.
- During the quarter, the Maha-1 well on the Tartaruga Field was successfully drilled with production testing operations to follow.
- Revenue of USD 16.1 million (Q3 2018: USD 9.0 million)
- Operating netback of USD 12.0 million or USD 38.22 per BOE (Q3 2018: USD 6.6 million or USD 46.17 per BOE)
- EBITDA of USD 10.7 million (Q3 2018: USD 5.4 million)
- Net result of USD 6.6 million (Q3 2018: USD 3.2 million)
- Basic Earnings per share of USD 0.07 (Q3 2018: USD 0.03)
- Diluted Earnings per share of USD 0.06 (Q3 2018: USD 0.03)

### Nine Months Ended 30 September 2019

- Daily oil & gas production for the nine months 2019 3,004 BOEPD (2018: 1,585 BOEPD).
- Revenue of USD 41.9 million (2018: USD 25.5 million)
- Operating netback of USD 31.7 million or USD 40.38 per BOE (2018: 17.5 USD million or 40.70 USD per BOE)
- EBITDA of USD 27.5 million (2018: USD 13.9 million)
- Net result for the period of USD 17.0 million (2018: USD 7.4 million)
- Basic Earnings per share of USD 0.17 (2018: USD 0.08)
- Diluted Earnings per share of USD 0.16 (2018: USD 0.07)
- Cash and cash equivalents balance of USD 20.4 million (2018: 22.3 million).

### Financial Summary

| <i>(TUSD, unless otherwise noted)</i> | <b>Q3<br/>2019</b> | Q2<br>2019 | Q1<br>2019 | Q4<br>2018          | Q3<br>2018 | <b>Nine<br/>Months<br/>2019</b> | Nine<br>Months<br>2018 | FY<br>2018 |
|---------------------------------------|--------------------|------------|------------|---------------------|------------|---------------------------------|------------------------|------------|
| Net Daily Production (BOEPD)          | <b>3,593</b>       | 2,739      | 2,669      | 2,454               | 1,565      | <b>3,004</b>                    | 1,585                  | 1,804      |
| Revenue                               | <b>16,068</b>      | 14,098     | 11,751     | 12,595              | 9,049      | <b>41,917</b>                   | 25,537                 | 38,132     |
| Operating netback                     | <b>12,017</b>      | 10,668     | 9,029      | 9,436               | 6,553      | <b>31,714</b>                   | 17,481                 | 26,917     |
| EBITDA                                | <b>10,663</b>      | 9,188      | 7,663      | 8,486               | 5,392      | <b>27,514</b>                   | 13,918                 | 22,404     |
| Net result for the period             | <b>6,570</b>       | 6,157      | 4,248      | 18,267 <sup>1</sup> | 3,213      | <b>16,975</b>                   | 7,378                  | 25,645     |
| Earnings per share – Basic (USD)      | <b>0.07</b>        | 0.06       | 0.04       | 0.19                | 0.03       | <b>0.17</b>                     | 0.08                   | 0.26       |
| Earnings per share – Diluted (USD)    | <b>0.06</b>        | 0.06       | 0.04       | 0.17                | 0.03       | <b>0.16</b>                     | 0.07                   | 0.25       |
| Cash and cash equivalents             | <b>20,421</b>      | 20,504     | 19,768     | 20,255              | 22,292     | <b>20,421</b>                   | 22,292                 | 20,255     |

<sup>1</sup> Q4 2018 Net result includes USD 11.3 million of recognized deferred tax recovery and USD 0.8 million of other gains.

## Definitions

### Abbreviations

|             |                 |
|-------------|-----------------|
| <b>CAD</b>  | Canadian Dollar |
| <b>SEK</b>  | Swedish Krona   |
| <b>BRL</b>  | Brazilian Real  |
| <b>USD</b>  | US Dollar       |
| <b>TSEK</b> | Thousand SEK    |
| <b>TUSD</b> | Thousand USD    |
| <b>MSEK</b> | Million SEK     |
| <b>MUSD</b> | Million USD     |

### Oil related terms and measurements

|                   |   |
|-------------------|---|
| <b>BOE or boe</b> | Barrels of Oil Equivalents                  |
| <b>BBL or bbl</b> | Barrel                                      |
| <b>BOEPD</b>      | Barrels of Oil Equivalents Per Day          |
| <b>BOPD</b>       | Barrels of Oil Per Day                      |
| <b>Mbbl</b>       | Thousand barrels of Oil                     |
| <b>MMbbl</b>      | Million barrels of Oil                      |
| <b>Mboe</b>       | Thousand barrels of oil equivalents         |
| <b>Mboepd</b>     | Thousand barrels of oil equivalents per day |
| <b>Mbopd</b>      | Thousand barrels of oil per day             |
| <b>MCF</b>        | Thousand Cubic Feet                         |
| <b>MSCFPD</b>     | Thousand Standard Cubic Feet per day        |
| <b>MMSCF</b>      | Million Standard Cubic Feet                 |
| <b>MMSCFPD</b>    | Million Standard Cubic Feet Per Day         |
| <b>BWPD</b>       | Barrels of Water Per Day                    |

### Gas to oil conversion

6,000 cubic feet = 1 barrel of oil equivalent

## Letter to shareholders

Dear Friends and Fellow Shareholders of Maha Energy AB,

Notwithstanding the recently announced reduction in the estimated 2019 annual production volumes, the third quarter was very positive for Maha with many significant “bright spots”.

Of particular note:

- the drilling and completing of the Attic well at the Tie Field resulted in a **62% increase** in Proven and Probable (2P) reserves from 10.734 MMbbl of oil to 17.365 MMbbl of oil which nearly doubled the predicted plateau production rate at the Tie field from 3 to almost 6 years;

- the successful drilling of the Maha -1 well with better than expected indications of **72 m of net pay**, that will be tested using a smaller and ‘fit for purpose’ workover rig; and,

- final approval and commissioning of Petrobras’ second receiving terminal at Comboata that now takes delivery of **750 BOPD** of Tie Field oil.

### **2019 Annual Average Production Rates were reduced to 2750 BOPD – 2,900 BOPD**

Subsequent to this reporting period, Maha’s 2019 estimated annual average production rate was unfortunately revised for a second time this year due to delays in start-up and commissioning of gas handling and disposal equipment at the Tie Field. A string of simultaneous events culminated in requiring to reduce oil production to prevent exceeding Government imposed flaring restrictions during the last 2 months of the year. This revision is in no way indicative of the Tie Field’s current or future oil producing capacity and we are working very hard to “get back on track” to earlier expectations.

### **2P Reserves up by 62% at the Tie Field – now at 17.365 Million Barrels of Oil**

By far the biggest news of the third quarter were the results of the re-mapping of the Tie structures following the results of the recently drilled ‘Attic Well’. Remapping of the structure resulted in a substantially larger structure and more “in situ” oil volumes. With these increased reserves the Field Development Plan will be revised to include more wells, and a longer plateau production rate. To this end, the Company is commencing a new field modelling project for this expansion. Notably it appears clear the Tie Field production plateau of 4,850 BOPD will extend by up to 3 years resulting in a significant corresponding positive effect on the Tie Field’s, and therefore the Company’s, Net Present Value.

### **Petrobras Comboata Terminal Commissioned**

After nearly a year of ‘to and from’ -the Comboata Oil Terminal commenced taking oil deliveries from the Tie Field. Following 2 weeks of “teething” issues, the Terminal now takes its daily allotment of 750 BOPD and Petrobras is now therefore able to receive a total of 1,850 BOPD from the Tie Field at two terminals. With the local refinery currently taking up to 2,200 BOPD – the Company has off-take capacity for up to 4,050 BOPD for Tie Field oil right now. This is a significant increase from July 2017 when the Tie Field was purchased and offtake was limited to 1,100 BOPD.

The local refinery still awaits a final Government permit to utilize its new expansion upon which the Company can increase its deliveries from the Tie field by a further 800 BOPD. At that point - Maha will be able to sell and deliver 4,850 BOPD from the Tie field.

### **Tartaruga**

Maha-1 (7-TTG-3D-SES) well was spudded on 12 July, 2019 and total depth was reached on 3 October, 2019. After an extensive coring and electric logging program, initial results show that all the Penedo sandstone stringers are continuous and a total of 72 m. of net pay has been calculated. The Drilling rig was demobilized allowing for a smaller

workover rig (“test rig”) to be mobilized. This test rig is expected at the Tartaruga site towards the end of November, after which the Maha-1 well will be extensively tested over a period of up to 90 days. While the test rig is at the Tartaruga site, the 107D horizontal well will finally be cleaned out and tested properly. At the moment, the plan is to test 107D before commencing testing of the Maha-1 well.

As is apparent, there is a lot going on and much to be excited about. The increase in 2P reserves at the Tie field is significant to the fundamental value of the Company. The facility improvement investments already made and the newly extended Tie Field production plateau secures long term positive cash flow for the Company. The testing of new Penedo sands at Tartaruga are, if positive, a gateway to continued solid organic growth!

I continue to be grateful to all Maha employees for their hard work and dedication that has made all this possible.

“Jonas Lindvall” Managing Director

## Financial Report for the Third Quarter and Nine months ended September 30, 2019

### OPERATIONAL AND FINANCIAL REVIEW

#### 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.

#### Assets

| Country | Concession name | Maha Working Interest (%) | Status         | Area (acres) | BOEPD <sup>(2)</sup> | Partner         |
|---------|-----------------|---------------------------|----------------|--------------|----------------------|-----------------|
| USA     | LAK Ranch       | 99%                       | Pre-Production | 6,475        | 31                   | SEC (1%)        |
| Brazil  | Tartaruga       | 75%                       | Producing      | 13,201       | 391                  | Petrobras (25%) |
| Brazil  | Tie (REC-T 155) | 100%                      | Producing      | 1,511        | 3,171                |                 |
| Brazil  | REC-T 155       | 100%                      | Exploration    | 4,276        | -                    |                 |
| Brazil  | REC-T 129       | 100%                      | Exploration    | 7,241        | -                    |                 |
| Brazil  | REC-T 142       | 100%                      | Exploration    | 6,856        | -                    |                 |
| Brazil  | REC-T 224       | 100%                      | Exploration    | 7,192        | -                    |                 |
| Brazil  | REC-T 117       | 100%                      | Exploration    | 6,795        | -                    |                 |
| Brazil  | REC-T 118       | 100%                      | Exploration    | 7,734        | -                    |                 |

#### BRAZIL

##### Tie Field (Reconcavo Basin)

Maha owns and operate, through a wholly-owned subsidiary, 100% working interests in six onshore concession agreements located in the Reconcavo Basin of Brazil, including the oil producing Tie field. The Tie field and the six concessions are located in the state of Bahia, onshore Brazil. The six concessions are in varying stages of exploration and development. A total of 8 wells had been drilled and 212 km<sup>2</sup> of 3D seismic had been acquired by the previous Operator over the 41,606 total acres.

##### GTE-3 (oil producer)

During the third quarter of 2018, the GTE-3 well was recompleted with a newly acquired jet pump immediately adding about 900 BOPD to the Tie Field production. Due to a stuck pressure plug in the short string, GTE-3 was comingled from both the Agua Grande (AG) and Sergi zones. Work to convert the GTE-3 well from a single comingled well to a separate dual completion was completed in July 2019 and during the quarter work continued to clean up and restore production on GTE-3. GTE-3 can now be produced individually from both the AG and Sergi zones.

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<sup>2</sup> As per the current quarter reported net production volumes. 1BBL = 6000SCF of gas. Approximately 93% of Maha's oil equivalent production is crude oil.

#### GTE-4 (oil producer)

GTE-4 continued to free flow during the quarter. During the month of October, and as expected, the GTE-4 Sergi formation (long string) temporarily stopped free-flowing which led the Company to commence far gone plans to reconfigure GTE-4 to install a downhole jet pump artificial lift system, as and when operations permit. This was not unexpected, for which in anticipation of this, the Company had already installed the surface jet pumping equipment at the well site. Planning operations have now commenced to workover GTE-4 and install the downhole pump at the Sergi formation.

#### 7-Tie-1DP-BA (Attic Well)

On February 18, 2019 Maha spudded its first development well to boost production at the Tie Field. The primary objective of this well was to dually complete the AG and Sergi zones at a structurally higher position to the already free flowing GTE-4 well. A secondary objective was to penetrate and evaluate the slightly deeper Boipeba sandstone reservoir. However, poor reservoir development of the Boipeba formation resulted in no hydrocarbon presence at this location. Following the initial single completion, the well was recompleted using a dual 2-3/8" tubing completion with initial free flowing tests from the Sergi and AG formations of 985 BOPD (1,088 BOEPD) and 1,726 BOPD (1,844 BOEPD) respectively with neither zone producing any noticeable water amount. During these tests the AG production had to be choked back (restricted) due to surface equipment limitations, suggesting potential higher production rates. The well was hooked up in June and is currently producing from both zones.

#### Production Facilities

The production facilities at the Tie Field were upgraded from its original 2,000 BOPD handling capacity to about 5,000 BOPD. As the Tie Field is not connected to a pipeline system, all oil is exported by trucks. The associated gas is separated and sold locally.

Average production from the Tie Field during the current quarter was 3,171 BOEPD (2,889 BOPD and 1,693 MSCFPD of gas).

As disclosed on November 11, production at the Tie Field is currently being restricted due to delays in the group separator commissioning, delays in commissioning of Gas-to-Wire generators, higher associated gas from lower water injection volumes and expiring flaring dispensations. Production volumes are expected to increase as: i) more Gas-to-Wire generators are connected to the grid; ii) water injection volumes increases; and iii) the group separator is fully functioning.

#### Tartaruga Field

Maha has a 75% working interest in the Tartaruga development block, located in the Sergipe Alagoas Basin onshore Brazil. The Tartaruga Field is located in the northern half of the 13,201 acre (53.4 km<sup>2</sup>) Tartaruga Block and produces light (41° API) oil from the Penedo sandstone reservoir. The Penedo sandstone consists of 27 separate stacked sandstone stringers, having all been electrically logged and are believed to contain oil, and of which only 2 of the 27 have been produced (Penedo 1 and Penedo 6).

Starting in 2018, the Company commenced a significant work program which included the re-entry, perforation, stimulation and recompletion of the 7TTG producing well along with the re-entry and horizontal sidetrack drilling of the 107D well. As stated in prior reports, the multiple stacked Penedo sandstone are believed to respond well to horizontal drilling and hydraulic stimulation. To that end, work planned for Tartaruga included both hydraulic stimulation of the existing 7TTG well and the horizontal side-tracking of the 107D well. In both cases, the highly productive Penedo 1 sandstone was targeted. In the 7TTG well, Penedo 1 sandstone had never been produced and was considered 'pay-behind-pipe'.

### 7TTG Well

The workover to recomplete the 7TTG well with larger tubing and a dedicated jet pump was completed in 2019 perforating the P1 and P4 sandstones, with the P1 zone stimulated. Subsequent clean-up operations have yielded a stabilized production rate of 750 BOPD (gross) from the P1 zone only. The well is currently on production.

### 107D Sidetrack

In early 2019, drilling of the 107D horizontal sidetrack was completed with a 500 m long horizontal hole in the Penedo-1 sandstone penetrating 312 m. of very good to excellent oil and gas shows. These results are important because they prove up horizontal continuity of the Penedo sandstone stringers and the applicability of horizontal drilling technology in the Tartaruga Field. The liner has now been perforated using a coiled tubing unit with immediate indications of hydrocarbons observed. Subsequent well clean up and testing operations resulted in a continuous free flow of approximately 80 BOPD, 50 BWPD and 33 MSCFPD over a test period of seven days. Due to excessive emulsion problems (of the produced fluid) and surface handling constraints (insufficient tank volumes and heater treater limitations) the well test was stopped before the well was completely cleaned up. The fact that the well flowed unassisted to surface whilst still unloading large volumes of completion brine and drilling fluids is very encouraging. The well will be re-entered, completed and flow-tested, towards the end of 2019.

### Maha-1 (7-TTG-3D-SES) Delineation (new) Well

On July 12, 2019 the Company spudded Maha-1 and Total Depth (TD) was reached on 3 October, 2019. The well was cased and cemented and the rig released in mid-October. Because of space limitations at the Tartaruga location, a smaller rig will be brought in to assist in well testing operations. Maha-1 will undergo extensive well tests to evaluate previously untested Penedos sandstone stringers. Following testing operations, the Maha-1 well will be completed and placed on production.

### Production Facilities

Current handling facilities at Tartaruga Field allow for approximately 500 – 800 BOPD of processing and handling with storage limited at 1,350 barrels of oil. Current oil production is limited by associated gas flare limitations, and plant handling capacity. Currently, crude export is via oil trucks as the facility is not linked to a pipeline system. The production test results from the 107D Sidetrack and the Maha-1 well will dictate upgrade requirements for the production handling facilities at the Tartaruga Field. During the second half of 2019, facilities upgrade work began to handle up to 2,500 BOPD and 500 MSCFPD of associated gas. Environmental licenses have already been obtained for the implementation of a Gas-to Wire project that will handle the excess gas. for this upgrade. The facilities upgrades are expected to be completed during the second quarter of 2020. However, the plan is to incrementally increase production as capacity is brought on line. It is not anticipated that there will be any significant production stoppages during the upgrade work. The Tartaruga facilities have not been shut in during the drilling activities of the Maha-1 (7-TTG-3D) well.

Average net production from the Tartaruga Field during the current quarter was 391 BOPD

## **USA**

The Company owns and operates a 99% working interest in the LAK Ranch oil field, located on the eastern edge of the multi-billion barrel Powder River Basin in Wyoming, USA.

The crude oil density produced from the LAK area is 19° API. Since the purchase of this field in 2013, the Company has been evaluating different oil recovery mechanisms and is currently working towards a staged full field development using a hot water injection scheme. Multiple attempts have been made on the field since its discovery in the 1960's, including cyclic steam, steam assisted gravity drainage and solvent injection. Maha has determined through drilling results, core analysis, and computer aided modelling, core tests and field pilot tests that a simple water flood using hot water produces the best economic results. As at 30 September 2019, the LAK Ranch asset is still considered to be in the pre-production stage and is currently undergoing delineation and pre-development work. As such royalties and operating costs, net of revenues, since the commencement of operations have been capitalized as part of exploration and evaluation costs.

### Phase 3 of Development Plan

The Phase 3 production and injection wells were completed during the latter part of 2018. Tie-ins and commissioning work was completed during the first half of 2019 and since then the Company is monitoring the effect of the combined injection and production operations of Phase 3. No further work will be undertaken at LAK until the results of the Phase 3 development program have been analyzed, which is expected to be completed by the end of this year.

During the third quarter of 2019, the Company generated incidental revenue from LAK Ranch of TUSD 121, on average sales volumes of 31 bopd.

### Production

|  | Q3 2019 | Q3 2018 | Nine Months 2019 | Nine Months 2018 | Full Year 2018 |
|--|---------|---------|------------------|------------------|----------------|
| Delivered Oil (Barrels) <sup>3</sup>   | 304,585 | 135,714 | 761,701          | 398,301          | 609,087        |
| Delivered Gas (MSCF)                   | 155,753 | 49,853  | 349,785          | 206,072          | 296,189        |
| Delivered Oil & Gas (BOE) <sup>4</sup> | 330,544 | 144,023 | 819,999          | 432,647          | 658,452        |
| Daily Volume (BOEPD)                   | 3,593   | 1,565   | 3,004            | 1,585            | 1,804          |

Production volumes shown are net working interest volumes before government, gross overriding and freehold royalties. Approximately 92% of Maha's oil equivalent production is crude oil.

Average daily production volumes increased by 130% and 90% for Q3 and the nine months ended September 2019, respectively, versus the comparative 2018 periods. This increase is mainly attributed to the production from the new Attic well in the Tie field and the workovers of the GTE-3 and 7TTG wells. Production volumes also increased as Maha managed to secure additional deliveries to both the gas and oil customers for the Tie Field production. During Q3 2018, Tartaruga Field production was mostly shut in during the 107D drilling activities.

### Revenue

| <i>(TUSD, unless otherwise noted)</i>                | Q3 2019 | Q3 2018 | Nine Months 2019 | Nine Months 2018 | Full Year 2018 |
|--|---------|---------|------------------|------------------|----------------|
| Oil and Gas revenue                                  | 16,068  | 9,049   | 41,917           | 25,537           | 38,132         |
| Sales volume (BOE)                                   | 314,491 | 141,946 | 785,313          | 429,484          | 647,607        |
| Oil realized price (USD/bbl)                         | 54.93   | 67.68   | 57.00            | 64.35            | 63.18          |
| Gas realized price (USD/MSCF)                        | 1.14    | 0.87    | 1.25             | 1.00             | 1.17           |
| Oil Equivalent realized price (USD/Boe) <sup>5</sup> | 50.96   | 63.75   | 53.32            | 59.46            | 58.88          |
| Reference price – Average Brent (USD/bbl)            | 61.93   | 75.07   | 64.67            | 71.53            | 71.06          |

Revenue for Q3 and the nine months ended 30 September 2019 amounted to TUSD 16,068 (2018: TUSD 9,049) and TUSD 41,917 (2018: TUSD 25,537), respectively. Total revenue increased 78% in Q3 2019 versus the comparative period due to 122% increase in sales volumes offset by 19% lower oil realized prices. Revenue for the nine months ended September 2019 was 64% higher against the comparative period due to 83% higher sales volumes while total realized price was lower by 10%. Lower realized prices are in line with the fluctuations in the Brent oil marker during the related periods. Higher sales volume in the current quarter are a result of higher production volumes in the Tie Field and Tartaruga Field oil sales following two months of inventory built up.

<sup>3</sup> Includes LAK Ranch Oil delivered during the period

<sup>4</sup> BOE is Barrels of Oil Equivalent and takes into account gas delivered and sold. 1 bbl = 6,000 SCF of gas

<sup>5</sup> Equivalent realized price calculation excludes other revenue

Other revenue in relation to gas sales contract take-or-pay obligations are excluded from realized price calculation but included in the per BOE netback. LAK Ranch production volumes are excluded from sold volumes as this field is still in pre-production stage. More revenue information can be found in Note 4 to the Consolidated Financial Statements.

Crude oil realized prices are based on Brent price less/plus current contractual discounts/premiums as follows:

#### Tie Field crude oil

Crude oil from the Tie Field is sold to Petrobras and a nearby refinery. For crude oil sold to the refinery, the current discount is USD 8/BBL. Effective April 1, 2019 and for the following twelve months, crude oil from the Tie Field to Petrobras' Carmo station is sold at a discount to Brent oil price of USD 6.09/Bbl plus an additional 3.52% discount on the resulting net price. During the quarter, additional oil delivery capacity was obtained through Petrobras' Camboata station which is sold at a discount to Brent oil price of \$10.49/Bbl for the first 22,680 delivered barrels, and \$6.09 thereafter.

#### Tartaruga Field crude oil

Crude oil from the Tartaruga Field is entirely sold to Petrobras. During the first half of 2019, crude oil from the Tartaruga Field was sold at a premium to Brent of USD 0.41/BBL. Effective July 1, 2019 and for the following twelve months, it will be sold at a premium of USD 0.16/BBL

### Royalties

| <i>(TUSD, unless otherwise noted)</i> | Q3 2019 | Q3 2018 | Nine Months 2019 | Nine Months 2018 | Full Year 2018 |
|---------------------------------------|---------|---------|------------------|------------------|----------------|
| Royalties                             | 2,130   | 1,052   | 5,509            | 3,181            | 4,805          |
| Per unit (USD/BOE)                    | 6.77    | 7.41    | 7.01             | 7.41             | 7.42           |
| Royalties as a % of revenue           | 13.3%   | 11.6%   | 13.1%            | 12.5%            | 12.6%          |

Royalties are settled in cash and based on realized prices before discounts. Royalty expense increased for Q3 and the nine months of 2019, respectively, as compared to the comparative periods being consistent with the higher revenue for the same periods. Royalty expense as a percentage of revenues was slightly higher in Q3 2019 than the comparative period due to higher royalty-rate Tartaruga Field oil sales during 2019. During Q3 2018, Tartaruga Field production was shut in for the majority of the period.

### Production expenses

| <i>(TUSD, unless otherwise noted)</i> | Q3 2019 | Q3 2018 | Nine Months 2019 | Nine Months 2018 | Full Year 2018 |
|---------------------------------------|---------|---------|------------------|------------------|----------------|
| Production costs                      | 1,436   | 1,261   | 3,542            | 4,236            | 5,468          |
| Transportation costs                  | 485     | 183     | 1,152            | 639              | 942            |
| Total Production expenses             | 1,921   | 1,444   | 4,694            | 4,875            | 6,410          |
| Per unit (USD/BOE)                    | 6.10    | 10.17   | 5.98             | 11.35            | 9.89           |

Production expenses increased by 33% for Q3 2019 and amounted to TUSD 1,921 as compared to TUSD 1,444 for Q3 2018 as a result of higher sales volumes of 122% over the same period. On a per BOE (or unit) basis, production expense decreased by 40% for Q3 2019 and was USD 6.10 per BOE as compared to USD 10.17 per BOE for Q3 2018. Excluding transportation, the majority of production costs are fixed explaining the lower production costs on a per BOE basis as production volumes increases.

For the nine months ended September 2019 production expense was slightly lower the comparative period despite significantly higher sales volumes by 83%, as a result of operating efficiencies following facilities upgrades. On a per

BOE basis, costs were lower by 47%, as a result of higher sales volumes for the nine months of 2019 as compared to nine months of 2018.

### Operating netback

| <i>(TUSD, unless otherwise noted)</i> | Q3 2019       | Q3 2018 | Nine Months 2019 | Nine Months 2018 | Full Year 2018 |
|---------------------------------------|---------------|---------|------------------|------------------|----------------|
| Operating Netback                     | <b>12,017</b> | 6,553   | <b>31,714</b>    | 17,481           | 26,917         |
| Netback (USD/BOE)                     | <b>38.22</b>  | 46.17   | <b>40.38</b>     | 40.70            | 41.57          |

Operating netback is calculated as revenue less royalties and production expenses and is a metric used in the oil and gas industry to compare performance internally and with peers. Operating netback on a dollar basis for Q3 2019 and the nine months of 2019 was 83% and 81% higher, respectively, against the comparative periods as a result of overall increase in sales volumes despite lower realized prices in the 2019 periods. This is observed on a per BOE basis, where operating netback decreased 17% versus comparable quarter but remained practically even for the 9 month period, reflecting improving per unit costs.

LAK Ranch is still in pre-production stage therefore royalties and operating costs, net of revenues, are being capitalized as part of exploration and evaluation costs and is not included in the Company's netback.

### General and Administration ("G&A")

| <i>(TUSD, unless otherwise noted)</i> | Q3 2019      | Q3 2018 | Nine Months 2019 | Nine Months 2018 | Full Year 2018 |
|---------------------------------------|--------------|---------|------------------|------------------|----------------|
| G&A                                   | <b>1,268</b> | 1,108   | <b>4,052</b>     | 3,323            | 4,222          |
| G&A (USD/BOE)                         | <b>4.03</b>  | 7.80    | <b>5.16</b>      | 7.74             | 6.52           |

G&A expenses amounted to TUSD 1,268 for Q3 2019 which is 14% higher than the comparative period due to severance costs of a former member of management and additional fees incurred during the quarter for the corporate reorganization of entities within the Maha group. On a per BOE basis, G&A expenses decreased by 48% due to higher sales volumes in the current quarter as compared to Q3 2018.

G&A expense amount to TUSD 4,052 for the nine months 2019 and is higher by 22% as compared to the same period in 2018. Higher year-to-date G&A expenses other than for the above-mentioned, relate to a one-time bonus payment to staff during the second quarter. On a per BOE basis, G&A expenses are lower by 33% than the comparative period. G&A amounts are presented net, following allocation of certain costs into production expense and property, plant and equipment based on capital activity levels.

### Depletion, depreciation and amortization ("DD&A")

| <i>(TUSD, unless otherwise noted)</i> | Q3 2019      | Q3 2018 | Nine Months 2019 | Nine Months 2018 | Full Year 2018 |
|---------------------------------------|--------------|---------|------------------|------------------|----------------|
| DD&A                                  | <b>1,534</b> | 743     | <b>4,289</b>     | 2,331            | 3,762          |
| DD&A (USD/boe)                        | <b>4.88</b>  | 5.23    | <b>5.46</b>      | 5.43             | 5.81           |

The depletion rate is calculated on proved and probable oil and natural gas reserves, taking into account the future development costs to produce the reserves. Depletion expense is computed on a unit-of-production basis. The depletion rate will fluctuate on each re-measurement period based on the capital spending and reserves additions for the period.

The higher depletion expense for the current quarter is consistent with the higher sales volumes. On a per BOE basis, depletion per boe has decreased as compared to the comparative period due to the added reserves in the Tie Field during the Q3 2019. For the nine months of 2019 depletion expense on a per BOE basis is consistent with the comparative period. DD&A expense also includes depreciation expense for other equipment and right-of-use assets; however, implementation of IFRS 16 did not have a material impact on the DD&A expense and therefore the comparative periods have not been restated to include the impact of the implementation of IFRS 16.

#### **Foreign currency exchange gain or loss**

The net foreign currency exchange gain for the current quarter amounted to TUSD 176 (Q3 2018: TUSD 79 loss) and for the nine months of 2019 amounted to gain of TUSD 82 (2019: TUSD 18 gain). Foreign exchange movements occur on settlement of transactions denominated in foreign currencies and the revaluation of working capital to the prevailing exchange rate at the balance sheet date where those monetary assets and liabilities are held in currencies other than the functional currencies of the Company's reporting entities.

#### **Net finance costs**

Net finance items for the current quarter amounted to TUSD 1,264 (Q3 2018: TUSD 1,079) and for the nine months of 2019 amounted to TUSD 3,380 (2019: TUSD 3,536) and are detailed in Note 5. The implementation of IFRS 16 did not have a material impact on the net finance costs.

#### **Income Taxes**

Current tax expense in the quarter was TUSD 850 as compared to TUSD 278 in the comparative period due to the increased taxable income for the current quarter. Current tax expense for the nine months of 2019 was TUSD 1,766 as compared to TUSD 691 for the same period last year.

Deferred tax expense in the quarter was TUSD 334 as compared to nil in the comparative period and for the nine months of 2019 was TUSD 899 as compared to nil for the same period prior year. The deferred tax expense in the quarter is a result of the unwinding of the deferred tax asset related to estimated tax deductible temporary differences and tax loss carry-forwards.

#### **Liquidity and capital resources**

As at 30 September 2019, the Company had current assets of \$30.6 million comprised primarily of cash and cash equivalents, restricted cash, accounts receivable and prepaid expenses and inventory. The Company had current liabilities of \$12.5 million resulting in net working capital of \$18.1 million (31 December 2018: \$19.3 million).

#### **Financial Risks**

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 has cash in hand and expects to generate cash flow from operations to fund its development, operating and financing 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.

A detailed analysis of the Company's strategic, operational, financial and external risks and mitigation of those risks through risk management is described in Maha Energy's 2018 Annual Report and updated in Note 12.

#### **Legal matters**

Following the Tie Field Acquisition effective July 1, 2017, the Company inherited, through the acquisition of Gran Tierra Energy Brazil Ltda., a number of disclosed pre-existing legal matters concerning labor, regulatory and operations. Since taking over operations a number of new similar ordinary course legal matters have arisen. All of

these are considered routine, non-material and consistent with doing business in Brazil. Provisions for lawsuits have, in consultation with the Company's Brazilian legal counsel, been recorded under accrued liabilities and provisions.

### **Health, Safety and the Environmental ("HSE")**

At Maha, HSE is a key component of its management systems. Maha Energy strives to provide a safe and healthy work environment for all employees, contractors and suppliers. This means the safety of life, limb, environment and property always comes first. The Company actively monitors all operational sites and proactively encourages everyone to be mindful of all the Company's HSE Values. This is achieved through education, enforcement and reporting. Everyone working or visiting our sites have the right to stop work at any time to prevent potential HSE incidents occurring. Maha's HSE Values set the tone for how we approach each other and the environment.

Additional information on environmental, decommissioning and abandonment obligations in relation to oil and gas assets is presented in Note 9 to the Consolidated Financial Statements.

### **Corporate Governance and Sustainability**

Part of contributing to society and being a good global citizen must entail doing 'what is right', in addition to adhering to laws and regulations. One of the ways we ensure sustainability is to maximize recovery from existing energy sources and in order to do so effectively it is important to minimize scope changes. If we can prevent costly and impactful changes in development plans, we contribute to sustainability. Another way to contribute to a sustainable planet, is to ensure all resources are used. We therefore recycle produced water at our LAK Ranch facility which not only reduces having to find water from another source, but also reduces waste water treatment requirements. In Brazil, we are reducing the release of natural gas by using the waste gas from oil production to generate electricity.

Maha does not tolerate any form of corrupt practices and has in place Corporate Governance Policies that clearly define how we must conduct business. The best way to prevent corruption is through transparency - one of our core values. The Company has established a Code of Business Conduct and Anti-Corruption policies for all its employees, contractors and workers. More information on Corporate Governance can be found in Maha's Corporate Governance Report in the 2018 Annual Report (page 31 – 34).

### **Seasonal Effects**

Maha Energy has no significant seasonal variations.

### **Parent Company**

Business activities for Maha Energy AB focuses on: a) management and stewardship of all Group affiliates, subsidiaries and foreign operations; b) management of publicly listed Swedish entity; c) fundraising as required for acquisitions and Group business growth; and d) business development. Last year's activities focused on organic growth of the existing assets of the Group through a combination of new or enhanced facilities, new offtake arrangements, and drilling and workover operations on existing wells.

The net result for the Parent Company for Q3 2019 amounted to TSEK -3,658 (Q3 2018: TSEK -13,316). The result includes general and administrative expenses of TSEK 1,319 (Q3 2018: TSEK 866) and net finance costs of TSEK 5,866 (Q3 2018: TSEK 11,313). Net finance cost decreased in the current quarter as compared to the comparative period due to net impact of interest income on an intercompany loan by the Parent Company to its subsidiary.

### **Related Party Transactions**

The Company did not enter into any transactions with related parties during the quarter.

### **Subsequent Events**

There are no subsequent events to report.

***The financial information relating to the Third quarter ended 30 September 2019 has not been subject to review by the auditors of the Company.***

Approved by the Board

``Jonas Lindvall``  
Jonas Lindvall, Director

``Anders Ehrenblad``  
Anders Ehrenblad, Chairman

## Financial Statements

### Condensed Consolidated Statement of Operations

| <i>(TUSD)</i>                                 | Note | Q3 2019            | Q3 2018     | Nine Months<br>2019 | Nine Months<br>2018 |
|---|------|--------------------|-------------|---------------------|---------------------|
| <b>Revenue</b>                                |      |                    |             |                     |                     |
| Oil and gas sales                             | 3,4  | 16,068             | 9,049       | 41,917              | 25,537              |
| Royalties                                     |      | (2,130)            | (1,052)     | (5,509)             | (3,181)             |
|   |      | <b>13,938</b>      | 7,997       | <b>36,408</b>       | 22,356              |
| <b>Expenses</b>                               |      |                    |             |                     |                     |
| Production and transportation                 |      | (1,921)            | (1,444)     | (4,694)             | (4,875)             |
| General and administration                    |      | (1,268)            | (1,108)     | (4,052)             | (3,323)             |
| Depletion, depreciation and amortization      | 6    | (1,534)            | (743)       | (4,289)             | (2,331)             |
| Stock-based compensation                      | 10   | (86)               | (53)        | (148)               | (166)               |
| Financial derivative instruments              | 11   | -                  | -           | -                   | (74)                |
| Foreign currency exchange gain (loss)         |      | 176                | (79)        | 82                  | 18                  |
|   |      | <b>(4,633)</b>     | (3,427)     | <b>(13,101)</b>     | (10,751)            |
| <b>Operating result</b>                       |      | <b>9,305</b>       | 4,570       | <b>23,307</b>       | 11,605              |
| Net finance costs                             | 5    | (1,264)            | (1,079)     | (3,380)             | (3,536)             |
| Other Loss                                    | 12   | (287)              | -           | (287)               | -                   |
| <b>Result before tax</b>                      |      | <b>7,754</b>       | 3,491       | <b>19,640</b>       | 8,069               |
| Income tax – current                          |      | (850)              | (278)       | (1,766)             | (691)               |
| Income tax – deferred                         |      | (334)              | -           | (899)               | -                   |
| <b>Net result for the period</b>              |      | <b>6,570</b>       | 3,213       | <b>16,975</b>       | 7,378               |
| <b>Earnings per share basic – USD</b>         |      |                    |             |                     |                     |
|   |      | <b>0.07</b>        | 0.03        | <b>0.17</b>         | 0.08                |
| <b>Earnings per share fully diluted – USD</b> |      |                    |             |                     |                     |
|   |      | <b>0.06</b>        | 0.03        | <b>0.16</b>         | 0.07                |
| <u>Weighted average number of shares:</u>     |      |                    |             |                     |                     |
| Before dilution                               |      | <b>99,429,829</b>  | 97,998,835  | <b>99,006,993</b>   | 97,452,903          |
| After dilution                                |      | <b>109,173,814</b> | 105,012,944 | <b>108,061,849</b>  | 100,912,059         |

## Condensed Consolidated Statement of Comprehensive Earnings

| <i>(TUSD)</i>  | Note | Q3 2019 | Q3 2018 | Nine Months<br>2019 | Nine Months<br>2018 |
|--|------|---------|---------|---------------------|---------------------|
| <b>Net Result for the period</b>                             |      | 6,570   | 3,213   | 16,975              | 7,378               |
| Items that may be reclassified to profit or loss:            |      |         |         |                     |                     |
| Exchange differences on translation of<br>foreign operations |      | (5,715) | (3,117) | (4,626)             | (9,011)             |
| <b>Comprehensive result for the period</b>                   |      | 855     | 96      | 12,349              | (1,633)             |
| <b>Attributable to:</b>                                      |      |         |         |                     |                     |
| Shareholders of the Parent Company                           |      | 855     | 96      | 12,349              | (1,633)             |

## Condensed Consolidated Statement of Financial Position

| <i>(TUSD)</i>                              | Note | September 30, 2019 | December 31, 2018 |
|--|------|--------------------|-------------------|
| <b>ASSETS</b>                              |      |                    |                   |
| <b>Non-current assets</b>                  |      |                    |                   |
| Property, plant and equipment              | 6    | 72,427             | 58,834            |
| Exploration and evaluation assets          | 7    | 21,445             | 20,685            |
| Deferred tax assets                        |      | 9,524              | 11,259            |
| Performance bonds and others               |      | 178                | 177               |
| <b>Total non-current assets</b>            |      | <b>103,574</b>     | <b>90,955</b>     |
| <b>Current assets</b>                      |      |                    |                   |
| Crude oil inventory                        |      | 392                | 57                |
| Prepaid expenses and deposits              |      | 958                | 686               |
| Accounts receivable                        | 12   | 6,093              | 4,368             |
| Restricted cash                            | 16   | 2,709              | 2,804             |
| Cash and cash equivalents                  |      | 20,421             | 20,255            |
| <b>Total current assets</b>                |      | <b>30,573</b>      | <b>28,170</b>     |
| <b>TOTAL ASSETS</b>                        |      | <b>134,147</b>     | <b>119,125</b>    |
| <b>EQUITY AND LIABILITIES</b>              |      |                    |                   |
| <b>Equity</b>                              |      |                    |                   |
| <b>Shareholder's equity</b>                | 10   | <b>82,993</b>      | <b>69,274</b>     |
| <b>Liabilities</b>                         |      |                    |                   |
| <b>Non-current liabilities</b>             |      |                    |                   |
| Bonds payable                              | 8    | 28,855             | 31,180            |
| Decommissioning provision                  | 9    | 1,910              | 1,720             |
| Lease liabilities                          |      | 414                | -                 |
| Other long-term liabilities and provisions |      | 7,478              | 8,093             |
| <b>Total non-current liabilities</b>       |      | <b>38,657</b>      | <b>40,993</b>     |
| <b>Current liabilities</b>                 |      |                    |                   |
| Accounts payable                           |      | 7,786              | 4,029             |
| Accrued liabilities and other              |      | 4,473              | 4,829             |
| Current portion of lease liabilities       |      | 238                | -                 |
| <b>Total current liabilities</b>           |      | <b>12,497</b>      | <b>8,858</b>      |
| <b>TOTAL LIABILITIES</b>                   |      | <b>51,154</b>      | <b>49,851</b>     |
| <b>TOTAL EQUITY AND LIABILITIES</b>        |      | <b>134,147</b>     | <b>119,125</b>    |

## Condensed Consolidated Statement of Cash Flows

| <i>(TUSD)</i>  | Note | Q3 2019        | Q3 2018        | Nine Months<br>2019 | Nine Months<br>2018 |
|--|------|----------------|----------------|---------------------|---------------------|
| <b>Operating Activities</b>                                |      |                |                |                     |                     |
| Net result   |      | 6,570          | 3,213          | 16,975              | 7,378               |
| Depletion, depreciation and amortization                   | 6    | 1,534          | 743            | 4,289               | 2,331               |
| Stock based compensation                                   | 10   | 86             | 53             | 148                 | 166                 |
| Accretion of decommissioning provision                     | 9    | 29             | 26             | 85                  | 77                  |
| Accretion of bond payable                                  | 8    | 248            | 255            | 752                 | 796                 |
| Interest expense   |      | 940            | 1,001          | 2,877               | 3,146               |
| Income tax expense   |      | 850            |                | 1,766               |                     |
| Deferred tax expense                                       |      | 334            | -              | 899                 | -                   |
| Financial derivative instruments                           | 11   | -              | 2              | -                   | 139                 |
| Unrealized foreign exchange amounts                        |      | 30             | (1,118)        | (592)               | 474                 |
| Interest received  |      | -              | 237            | 162                 | 567                 |
| Interest paid  |      | -              | -              | (1,892)             | (2,057)             |
| Tax paid   |      | (423)          | (278)          | (1,385)             | (691)               |
| Changes in working capital                                 | 14   | (230)          | 2,538          | (533)               | 869                 |
| <b>Cash from operating activities</b>                      |      | <b>9,968</b>   | <b>6,672</b>   | <b>23,551</b>       | <b>13,195</b>       |
| <b>Investing activities</b>                                |      |                |                |                     |                     |
| Capital expenditures - property, plant and equipment       | 6    | (8,988)        | (4,359)        | (21,877)            | (7,393)             |
| Capital expenditures - exploration and evaluation assets   | 7    | (113)          | (740)          | (760)               | (748)               |
| Restricted cash  |      | (24)           | -              | (108)               | -                   |
| <b>Cash used in investment activities</b>                  |      | <b>(9,125)</b> | <b>(5,099)</b> | <b>(22,745)</b>     | <b>(8,141)</b>      |
| <b>Financing activities</b>                                |      |                |                |                     |                     |
| Lease payments   |      | 4              | -              | (92)                | -                   |
| Issue of shares, net of share issue costs                  |      | -              | (29)           | -                   | 1,496               |
| Exercise of stock options and warrants                     | 10   | 426            | 150            | 1,223               | 252                 |
| <b>Cash from financing activities</b>                      |      | <b>430</b>     | <b>121</b>     | <b>1,131</b>        | <b>1,748</b>        |
| <b>Change in cash and cash equivalents</b>                 |      | <b>1,273</b>   | <b>(1,378)</b> | <b>1,937</b>        | <b>3,563</b>        |
| Cash and cash equivalents at the beginning of the period   |      | 20,504         | 20,914         | 20,255              | 18,729              |
| Currency exchange differences in cash and cash equivalents |      | (1,356)        | (316)          | (1,771)             | (3,239)             |
| <b>Cash and cash equivalents at the end of the period</b>  |      | <b>20,421</b>  | <b>22,292</b>  | <b>20,421</b>       | <b>22,292</b>       |

## Condensed Consolidated Statement of Changes in Equity

| <i>(TUSD)</i>                                   | Share Capital | Contributed Surplus | Other Reserves  | Retained (Deficit) Earnings | Total Shareholders' Equity |
|---|---------------|---------------------|-----------------|-----------------------------|----------------------------|
| <b>Balance at 1 January 2018</b>                | <b>117</b>    | <b>61,073</b>       | <b>(1,359)</b>  | <b>(11,630)</b>             | <b>48,201</b>              |
| Result for the period                           | -             | -                   | -               | 7,378                       | 7,378                      |
| Currency translation difference                 | -             | -                   | (9,011)         | -                           | (9,011)                    |
| <b>Total comprehensive result</b>               | -             | -                   | <b>(9,011)</b>  | <b>7,378</b>                | <b>(1,633)</b>             |
| <b>Transactions with owners</b>                 |               |                     |                 |                             |                            |
| Share issue cost                                | -             | (61)                | -               | -                           | (61)                       |
| Stock based compensation                        | -             | 166                 | -               | -                           | 166                        |
| Exercise of warrants and options                | 3             | 1,807               | -               | -                           | 1,810                      |
| <b>Total transactions with owners</b>           | <b>3</b>      | <b>1,912</b>        | -               | -                           | <b>1,915</b>               |
| <b>Balance at 30 September 2018</b>             | <b>120</b>    | <b>62,985</b>       | <b>(10,370)</b> | <b>(4,252)</b>              | <b>48,483</b>              |
| <b>Comprehensive result</b>                     |               |                     |                 |                             |                            |
| Result for the period                           | -             | -                   | -               | 18,267                      | 18,267                     |
| Currency translation difference                 | -             | -                   | 2,500           | -                           | 2,500                      |
| <b>Total comprehensive result</b>               | -             | -                   | <b>2,500</b>    | <b>18,267</b>               | <b>20,767</b>              |
| <b>Transactions with owners</b>                 |               |                     |                 |                             |                            |
| Stock based compensation                        | -             | 51                  | -               | -                           | 51                         |
| Exercise of warrants and options (net of costs) | -             | (27)                | -               | -                           | (27)                       |
| <b>Total transactions with owners</b>           | -             | <b>24</b>           | -               | -                           | <b>24</b>                  |
| <b>Balance at 31 December 2018</b>              | <b>120</b>    | <b>63,009</b>       | <b>(7,870)</b>  | <b>14,015</b>               | <b>69,274</b>              |
| <b>Comprehensive result</b>                     |               |                     |                 |                             |                            |
| Result for the period                           | -             | -                   | -               | 16,975                      | 16,975                     |
| Currency translation difference                 | -             | -                   | (4,628)         | -                           | (4,628)                    |
| <b>Total comprehensive result</b>               | -             | -                   | <b>(4,628)</b>  | <b>16,975</b>               | <b>12,347</b>              |
| <b>Transactions with owners</b>                 |               |                     |                 |                             |                            |
| Stock based compensation                        | -             | 148                 | -               | -                           | 148                        |
| Exercise of warrants and options (net of costs) | 2             | 1,222               | -               | -                           | 1,224                      |
| <b>Total transactions with owners</b>           | <b>2</b>      | <b>1,370</b>        | -               | -                           | <b>1,372</b>               |
| <b>Balance at 30 September 2019</b>             | <b>122</b>    | <b>64,379</b>       | <b>(12,498)</b> | <b>30,990</b>               | <b>82,993</b>              |

## Parent Company Statement of Operations

| <i>(Expressed in thousands of Swedish Krona)</i> | Note | Q3 2019        | Q3 2018         | Nine months<br>2019 | Nine<br>Months<br>2018 |
|--|------|----------------|-----------------|---------------------|------------------------|
| <b>Revenue</b>                                   |      | -              | -               | -                   | -                      |
| <b>Expenses</b>                                  |      |                |                 |                     |                        |
| General and administrative                       |      | (1,319)        | (866)           | (4,526)             | (2,653)                |
| Stock-based compensation                         | 10   | (814)          | (477)           | (1,390)             | (1,421)                |
| Foreign currency exchange gain(loss)             |      | 4,341          | (660)           | 5,124               | 4,785                  |
| <b>Operating result</b>                          |      | <b>2,208</b>   | <b>2,003</b>    | <b>(792)</b>        | <b>711</b>             |
| Net finance costs                                |      | (5,866)        | (11,313)        | (15,463)            | (33,940)               |
| Financial instruments                            | 11   | -              | -               | -                   | (618)                  |
| <b>Result before tax</b>                         |      | <b>(3,658)</b> | <b>(13,316)</b> | <b>(16,255)</b>     | <b>(33,847)</b>        |
| Income tax                                       |      | -              | -               | -                   | -                      |
| <b>Net Result for the period</b>                 |      | <b>(3,658)</b> | <b>(13,316)</b> | <b>(16,255)</b>     | <b>(33,847)</b>        |

## Parent Company Balance Sheet

| <i>(Expressed in thousands of Swedish Krona)</i> | Note | 30 September 2019 | 31 December 2018 |
|--|------|-------------------|------------------|
| <b>Assets</b>                                    |      |                   |                  |
| <b>Non-current assets</b>                        |      |                   |                  |
| Investment in subsidiaries                       |      | 184,219           | 184,219          |
| Loans to subsidiaries                            |      | 388,019           | 410,764          |
|  |      | <b>572,238</b>    | <b>594,983</b>   |
| <b>Current assets</b>                            |      |                   |                  |
| Accounts receivable and other                    |      | 838               | 170              |
| Restricted cash                                  |      | 50                | 50               |
| Cash and cash equivalents                        |      | 173,771           | 138,598          |
|  |      | <b>174,659</b>    | <b>138,818</b>   |
| <b>Total Assets</b>                              |      | <b>746,897</b>    | <b>733,801</b>   |
| <b>Equity and Liabilities</b>                    |      |                   |                  |
| <b>Restricted equity</b>                         |      |                   |                  |
| Share capital                                    |      | 1,107             | 1,091            |
| <b>Unrestricted equity</b>                       |      |                   |                  |
| Contributed surplus                              |      | 500,249           | 487,374          |
| Retained earnings                                |      | (51,394)          | (35,139)         |
| <b>Total unrestricted equity</b>                 |      | <b>448,855</b>    | <b>452,235</b>   |
| <b>Total equity</b>                              |      | <b>449,962</b>    | <b>453,326</b>   |
| <b>Non-current liabilities</b>                   |      |                   |                  |
| Bonds Payable                                    | 8    | 283,641           | 276,573          |
| <b>Current liabilities</b>                       |      |                   |                  |
| Accounts payable and accrued liabilities         |      | 13,294            | 3,902            |
| <b>Total liabilities</b>                         |      | <b>296,935</b>    | <b>280,475</b>   |
| <b>Total Equity and Liabilities</b>              |      | <b>746,897</b>    | <b>733,801</b>   |

## Parent Company Statement of Changes in Equity

|   | Restricted equity | Unrestricted equity |                   | Total Equity   |
|---|-------------------|---------------------|-------------------|----------------|
|   | Share capital     | Contributed surplus | Retained Earnings |                |
| <i>(Thousands of Swedish Krona)</i>                               |                   |                     |                   |                |
| <b>1 January 2018</b>   | <b>1,068</b>      | <b>470,545</b>      | <b>(25,051)</b>   | <b>446,562</b> |
| Share issue costs   | -                 | (541)               | -                 | (541)          |
| Stock based compensation  | -                 | 1,421               | -                 | 1421           |
| Exercise of warrants and stock options                            | 23                | 15,511              | -                 | 15,534         |
| Result for the period   | -                 | -                   | (33,847)          | (33,847)       |
| <b>30 September 2018</b>  | <b>1,091</b>      | <b>486,937</b>      | <b>(58,898)</b>   | <b>429,129</b> |
| <b>1 January 2019</b>   | <b>1,091</b>      | <b>487,374</b>      | <b>(35,139)</b>   | <b>453,326</b> |
| Stock based compensation  | -                 | 1,390               | -                 | 1,390          |
| Exercise of warrants and stock options<br>(net of issuance costs) | 16                | 11,485              | -                 | 11,485         |
| Result for the period   | -                 | -                   | (16,255)          | (16,255)       |
| <b>30 September 2019</b>  | <b>1,107</b>      | <b>500,249</b>      | <b>(51,394)</b>   | <b>449,962</b> |

## Notes to the Consolidated Financial Statements

### 1. Corporate information

Maha Energy AB (“Maha (Sweden)” or “the Company”) Organization Number 559018-9543 and its subsidiaries (together “Maha” or “the Group”) are engaged in the acquisition, exploration and development of oil and gas properties.

The Company has operations in Brazil and the United States. The head office is located at Strandvägen 5A, SE-114 51 Stockholm, Sweden. The Company’s subsidiary, Maha Energy Inc., maintains its technical office at Suite 1140, 10201 Southport Road SW, Calgary, Alberta, Canada. The Company has an office in Rio de Janeiro, Brazil and operations offices in Newcastle, Wyoming, USA.

### 2. Basis of presentation

The interim consolidated financial statements have been prepared in accordance with International Accounting Standard (IAS) 34, Interim Financial Reporting, the IFRS adopted by the EU and the Swedish Annual Accounts Act. The financial reporting of the Parent Company (Maha Energy AB) has been prepared in accordance with accounting principles generally accepted in Sweden, with the Swedish Financial Reporting Board recommendation, RFR2, reporting for legal entities and the Swedish Annual Accounts Act.

These interim consolidated financial statements are stated in thousands of US dollars (USD), unless otherwise noted, and have been prepared on a historical cost basis, except for certain financial instruments which are stated at fair value.

The accounting principles as described in the Annual Report 2018 have been used in the preparation of this report, except as identified in the *New and Revised Accounting Standards below*. Certain information and disclosures normally included in the notes to the annual Consolidated Financial Statements have been condensed or have been disclosed on an annual basis only. Accordingly, these interim consolidated financial statements should be read in conjunction with the annual Consolidated Financial Statements for the year ended 31 December 2018, which have been prepared in accordance with IFRS as adopted by the European Union (EU).

#### **New and Revised Accounting Standards**

The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective in the EU.

#### *Adoption of IFRS 16, “Leases”*

Effective January 1, 2019, the Company adopted IFRS 16, “Leases” (“IFRS 16”). The Company has applied the new standard using the modified retrospective approach. The modified retrospective approach does not require restatement of prior period financial information as it recognizes the cumulative effect as an adjustment to opening retained earnings and applies the standard prospectively. Therefore, the comparative information in the Company’s Consolidated Statement of Financial position, Consolidated Statements of Operations and Statement of Comprehensive Earnings and Consolidated Statements of Cash flows have not been restated. No other standards, amendments or interpretations that have come into force in 2019 are expected to have any material impact on the Company.

On adoption, Management elected to use the following practical expedients permitted under the standard:

- Right of use (ROU) assets will be measured at an amount equal to the lease liability;
- Leases with a less than 12 months remaining lease term at year end 2018 will not be reflected as leases;
- Apply a single discount rate to a portfolio of leases with similar characteristics;
- The use of hindsight in determining the lease term where the contract contains terms to extend or terminate the lease;

- The Company has made the following application policy choice: short-term leases (less than 12 months) and leases of low value assets will not be reflected in the balance sheet, but will be expensed as incurred.

## **Update to Significant Accounting Policies**

### **Leases**

The following accounting policy is applicable from 1 January 2019:

The Company assesses whether a contract is a lease based on whether the contract conveys the right to control the use of an underlying asset for a period of time in exchange for consideration. The Company allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

Leases are recognized as a ROU asset as part of the property, plant and equipment and a corresponding lease liability at the date on which the leased asset is available for use by the Company. Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of fixed payments, variable lease payments that are based on an index or a rate, amounts expected to be paid by the lessee under residual value guarantees, the exercise price of purchase options if the lessee is reasonably certain to exercise that option, and payments of penalties for terminating the lease, less any lease incentives receivable. These payments are discounted using the Company's incremental borrowing rate when the rate implicit in the lease is not readily available.

Lease payments are allocated between the liability and finance costs. The finance cost is charged to net earnings over the lease term.

The lease liability is measured at amortized cost using the effective interest rate method. It is remeasured when there is a change in the future lease payments arising from a change in an index or rate, if there is a change in the amount expected to be payable under a residual value guarantee or if there is a change in the assessment of whether the Company will exercise a purchase, extension or termination option that is within the control of the Company. When the lease liability is remeasured, a corresponding adjustment is made to the carrying amount of the ROU asset or is recorded in the consolidated statement of earnings if the carrying amount of the ROU asset has been reduced to zero.

The ROU asset is initially measured at cost, which comprises the initial amount of the lease liability any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or site on which it is located less any lease payments made at or before the commencement date. The ROU asset is depreciated, on a straight-line basis, over the shorter of the estimated useful life of the asset or the lease term. The ROU asset may be adjusted for certain remeasurements of the lease liability and impairment losses. Leases that have terms of less than twelve months or leases on which the underlying asset is of low value are recognized as an expense in the consolidated statement of earnings on a straight-line basis over the lease term.

A lease modification will be accounted for as a separate lease if the modification increases the scope of the lease and if the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope. For a modification that is not a separate lease or where the increase in consideration is not commensurate, at the effective date of the lease modification, the Company will remeasure the lease liability using the Company's incremental borrowing rate, when the rate implicit to the lease is not readily available, with a corresponding adjustment to the ROU asset. A modification that decreases the scope of the lease will be accounted for by decreasing the carrying amount of the ROU asset, and recognizing a gain or loss in net earnings that reflects the proportionate decrease in scope.

The parent company applies to the exception rule in RFR2, which means that the legal entity does not have to apply IFRS 16. The impacts of adoption of IFRS 16 as at January 1, 2019 resulted in recognition of additional lease liability and ROU assets of TUSD 427.

### Going Concern

The Company prepared these consolidated 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.

### 3. Segment Information

The Company operates in Canada, Sweden, Brazil and the United States of America. Operating segments are based on a geographic perspective and reported in a manner consistent with the internal reporting provided to the executive management. The following tables present the operating result for each segment from continuing operations. Revenue and income relate to external (non-intra group) transactions.

| (TUSD)   | Canada         | US           | Brazil        | Sweden         | Other <sup>6</sup> | Consolidated   |
|--|----------------|--------------|---------------|----------------|--------------------|----------------|
| <b>For nine months ended 30 September 2019</b> |                |              |               |                |                    |                |
| Revenue  | -              | -            | 41,917        | -              | -                  | <b>41,917</b>  |
| Royalties                                      | -              | -            | (5,509)       | -              | -                  | <b>(5,509)</b> |
| Production and operating                       | -              | -            | (4,694)       | -              | -                  | <b>(4,694)</b> |
| General and administration                     | (2,179)        | (178)        | (1,160)       | (491)          | (44)               | <b>(4,052)</b> |
| Stock-based compensation                       | -              | -            | -             | (148)          | -                  | <b>(148)</b>   |
| Depletion, depreciation and amortization       | (10)           | (66)         | (4,213)       | -              | -                  | <b>(4,289)</b> |
| Foreign currency exchange gain (loss)          | 682            | -            | 7             | 13             | (620)              | <b>82</b>      |
| <b>Operating results</b>                       | <b>(1,507)</b> | <b>(244)</b> | <b>26,348</b> | <b>(626)</b>   | <b>(664)</b>       | <b>23,307</b>  |
| Net finance costs                              | -              | (12)         | 263           | (1,645)        | (1,986)            | <b>(3,380)</b> |
| Other loss                                     | (287)          | -            | -             | -              | -                  | <b>(287)</b>   |
| Current income tax                             | -              | -            | (1,766)       | -              | -                  | <b>(1,766)</b> |
| Deferred income tax                            | -              | -            | (899)         | -              | -                  | <b>(899)</b>   |
| <b>Net results</b>                             | <b>(1,794)</b> | <b>(256)</b> | <b>23,946</b> | <b>(2,271)</b> | <b>(2,650)</b>     | <b>16,975</b>  |

| (TUSD)   | Canada         | US           | Brazil        | Sweden         | Other <sup>6</sup> | Total          |
|--|----------------|--------------|---------------|----------------|--------------------|----------------|
| <b>For nine months ended 30 September 2018</b> |                |              |               |                |                    |                |
| Revenue  | -              | -            | 25,537        | -              | -                  | <b>25,537</b>  |
| Royalties                                      | -              | -            | (3,181)       | -              | -                  | <b>(3,181)</b> |
| Production and operating                       | -              | -            | (4,875)       | -              | -                  | <b>(4,875)</b> |
| General and administration                     | (1,902)        | (116)        | (904)         | (310)          | (91)               | <b>(3,323)</b> |
| Stock-based compensation                       | -              | -            | -             | (166)          | -                  | <b>(166)</b>   |
| Depletion, depreciation and amortization       | (8)            | (34)         | (2,289)       | -              | -                  | <b>(2,331)</b> |
| Financial derivative instruments               | -              | -            | -             | (74)           | -                  | <b>(74)</b>    |
| Foreign currency exchange gain (loss)          | (35)           | -            | 29            | 14             | 10                 | <b>18</b>      |
| <b>Operating results</b>                       | <b>(1,945)</b> | <b>(150)</b> | <b>14,317</b> | <b>(536)</b>   | <b>(81)</b>        | <b>11,605</b>  |
| Net finance costs                              | 30             | (10)         | 467           | (3,955)        | (68)               | <b>(3,536)</b> |
| Current income tax                             | -              | -            | (691)         | -              | -                  | <b>(691)</b>   |
| <b>Net results</b>                             | <b>(1,915)</b> | <b>(160)</b> | <b>14,093</b> | <b>(4,491)</b> | <b>(149)</b>       | <b>7,378</b>   |

<sup>6</sup> Other represents Luxembourg subsidiary and intercompany eliminations and consolidation adjustments.

All oil and gas revenue, operating expenses and depletion are from the Brazilian operations. The Company had two large customers during Q3 2019 (Q3 2018: two) that individually accounted for more than 10 percent of the Company's consolidated gross sales. Total sales to these customers for the nine months of 2019 were approximately USD \$41.2 million (Nine months 2018: \$14.7 million), which are included in the Company's Brazil operating segment. Approximately, 61 percent of the total revenue is contracted with one customer in the Brazil segment. There were no intercompany sales or purchases of oil and gas during the period.

#### 4. Revenue

The Company's oil and gas sales revenues are predominantly derived from two major customers, under contracts based on floating prices utilizing the Brent oil benchmark adjusted for contracted discounts or premiums. For the Q3 2019, 100% (Q3 2018: 100%) of the Company's revenue resulted from oil and gas sales in Brazil.

Disaggregated revenue information:

The Company derives revenue from the transfer of goods at a point in time in the following major commodities from oil and gas production and the only geographical region of Brazil:

| TUSD   | Q3 2019       | Q3 2018      | Nine months<br>2019 | Nine months<br>2018 |
|--|---------------|--------------|---------------------|---------------------|
| Crude oil  | 15,849        | 9,002        | 41,440              | 25,321              |
| Natural gas  | 177           | 47           | 435                 | 216                 |
| Other  | 42            | -            | 42                  | -                   |
| <b>Total revenue from contracts with customers</b> | <b>16,068</b> | <b>9,049</b> | <b>41,917</b>       | <b>25,537</b>       |

The Company had no contract asset or liability balances during the period presented. As at 30 September 2019, accounts receivable included \$3.9 million of accrued sales revenue which related to September 2019 production. Revenue is measured at the consideration specified in the contracts and represents amounts receivable net of discounts and sales taxes. Performance obligations associated with the sale of crude oil are satisfied when control of the product is transferred to the customer. This occurs when the oil is physically transferred to the delivery point agreed with the customer and the customer obtains legal title. Other revenue is related to gas sales contract take-or-pay obligations.

LAK revenue, net of expenditures, is capitalized as part of the exploration and evaluation assets and will continue until commercial viability of the field is achieved as the property is still in pre-production stage.

#### 5. Finance Costs

| TUSD                                   | Q3 2019      | Q3 2018      | Nine months<br>2019 | Nine months<br>2018 |
|--|--------------|--------------|---------------------|---------------------|
| Interest on bond payable               | 938          | 1,001        | 2,872               | 3,146               |
| Accretion of bond payable (note 11)    | 248          | 256          | 752                 | 796                 |
| Accretion of decommissioning provision | 29           | 26           | 85                  | 77                  |
| Risk management contracts              | -            | 2            | -                   | 66                  |
| Interest income and other              | 49           | (206)        | (329)               | (549)               |
|  | <b>1,264</b> | <b>1,079</b> | <b>3,380</b>        | <b>3,536</b>        |

## 6. Property, Plant and Equipment (PP&E)

| (TUSD)   | Oil and gas properties | Equipment and Other | Right-of-use assets | Total          |
|--|------------------------|---------------------|---------------------|----------------|
| <b>Cost</b>  |                        |                     |                     |                |
| <b>1 January 2018</b>  | <b>54,284</b>          | <b>2,151</b>        | -                   | <b>56,435</b>  |
| Additions  | 16,732                 | 18                  | -                   | 16,750         |
| Currency translation adjustment  | (8,891)                | (108)               | -                   | (8,999)        |
| <b>1 January 2019 (Note 2)</b>   | <b>62,125</b>          | <b>2,061</b>        | <b>427</b>          | <b>64,613</b>  |
| Additions  | 21,812                 | 45                  | 413                 | 22,270         |
| Currency translation adjustment  | (5,440)                | (33)                | (54)                | (5,527)        |
| <b>30 September 2019</b>   | <b>78,497</b>          | <b>2,073</b>        | <b>786</b>          | <b>81,356</b>  |
| <b>Accumulated depletion, depreciation and amortization (DD&amp;A)</b> |                        |                     |                     |                |
| <b>1 January 2018</b>  | <b>(1,807)</b>         | <b>(302)</b>        | -                   | <b>(2,109)</b> |
| DD&A   | (3,583)                | (146)               | -                   | (3,729)        |
| Currency translation adjustment  | 471                    | 15                  | -                   | 486            |
| <b>1 January 2019</b>  | <b>(4,919)</b>         | <b>(433)</b>        | -                   | <b>(5,352)</b> |
| DD&A   | (3,920)                | (132)               | (152)               | (4,204)        |
| Currency translation adjustment  | 605                    | 14                  | 8                   | 627            |
| <b>30 September 2019</b>   | <b>(8,234)</b>         | <b>(551)</b>        | <b>(144)</b>        | <b>(8,929)</b> |
| <b>Carrying amount</b>   |                        |                     |                     |                |
| 31 December 2018 (Note 2)  | 57,206                 | 1,628               | 427                 | 59,261         |
| <b>30 September 2019</b>   | <b>70,263</b>          | <b>1,522</b>        | <b>642</b>          | <b>72,427</b>  |

## 7. Exploration and Evaluation Assets (E&E)

| TUSD                                     |               |
|--|---------------|
| <b>1 January 2018</b>                    | <b>17,789</b> |
| Additions in the period                  | 3,154         |
| Decommissioning obligation               | 121           |
| Incidental result from sale of crude oil | (379)         |
| <b>31 December 2018</b>                  | <b>20,685</b> |
| Additions in the period                  | 990           |
| Incidental result from sale of crude oil | (230)         |
| <b>30 September 2019</b>                 | <b>21,445</b> |

As at 30 September 2019, the LAK Ranch property 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.

## 8. Bond payable

|                                | TUSD          | TSEK           |
|--------------------------------|---------------|----------------|
| <b>1 January 2018</b>          | <b>32,678</b> | <b>267,423</b> |
| Accretion of bond liability    | 1,052         | 9,150          |
| Effect of currency translation | (2,550)       | -              |
| <b>31 December 2018</b>        | <b>31,180</b> | <b>276,573</b> |
| Accretion of bond liability    | 752           | 7,068          |
| Effect of currency translation | (3,077)       | -              |
| <b>30 September 2019</b>       | <b>28,855</b> | <b>283,641</b> |

For the Q3 2019 Maha recognized TUSD 938 of interest and TUSD 248 of accretion related to the Bonds.

The Bonds have the following maintenance covenants at each quarter end and on a rolling 12 months basis:

- i) Net Interest Bearing Debt to EBITDA is not greater than 3.00 (Leverage test);
- ii) Interest Coverage Ratio exceeds 2.25; and
- iii) Cash and cash equivalents exceeds USD \$5 million

The next reference test date for the maintenance covenants is as at 30 September 2019 which is reported following the release of this report and within two months following such reference date. As at the last reference date of 30 June 2019, the Company was compliant with all bond covenants. Based on the reported results herein, the Company expects that it will be compliant with its bond covenants for the current period.

## 9. Decommissioning Provision

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

| (TUSD)                    |              |
|---------------------------|--------------|
| <b>1 January 2018</b>     | <b>1,849</b> |
| Accretion expense         | 102          |
| Additions                 | 121          |
| Foreign exchange movement | (352)        |
| <b>31 December 2018</b>   | <b>1,720</b> |
| Accretion expense         | 85           |
| Additions                 | 338          |
| Foreign exchange movement | (233)        |
| <b>30 September 2019</b>  | <b>1,910</b> |

## 10. Share Capital

| Shares outstanding                 | Number of Shares by Class |                  |                  |                   |
|------------------------------------|---------------------------|------------------|------------------|-------------------|
|                                    | A                         | B                | C2               | Total             |
| <b>1 January 2018</b>              | <b>85,972,025</b>         | <b>9,183,621</b> | <b>1,698,000</b> | <b>96,853,646</b> |
| Exercise of warrants               | 2,074,717                 | -                | -                | 2,074,717         |
| Conversion of convertible B shares | 1,073,739                 | (1,073,739)      | -                | -                 |
| Exercise of Maha (Canada) options  | 1,138,687                 | -                | (1,138,687)      | -                 |
| Cancelled options                  | -                         | -                | (509,313)        | (509,313)         |
| <b>31 December 2018</b>            | <b>90,259,168</b>         | <b>8,109,882</b> | <b>50,000</b>    | <b>98,419,050</b> |
| Exercise of warrants               | 1,474,836                 | -                | -                | 1,474,836         |
| Conversion of convertible B shares | 149,564                   | (149,564)        | -                | -                 |
| Exercise of Maha (Canada) options  | 50,000                    | -                | (50,000)         | -                 |
| <b>30 September 2019</b>           | <b>91,933,568</b>         | <b>7,960,318</b> | <b>-</b>         | <b>99,893,886</b> |

Total outstanding warrants as at 30 September 2019 are Maha A TO2 share purchase warrants.

|                          | Number of Warrants | Exercise Price | Exercise Price |
|--------------------------|--------------------|----------------|----------------|
|                          | #                  | SEK            | USD            |
| <b>1 January 2018</b>    | <b>19,550,963</b>  | <b>7.12</b>    | <b>0.87</b>    |
| Exercised                | 2,074,717          | 6.40           | 0.72           |
| Expired                  | (4,126,246)        | 6.40           | 0.72           |
| <b>31 December 2018</b>  | <b>13,350,000</b>  | <b>7.45</b>    | <b>0.84</b>    |
| Exercised                | (1,474,836)        | 7.45           | 0.79           |
| <b>30 September 2019</b> | <b>11,875,164</b>  | <b>7.45</b>    | <b>0.76</b>    |

## Warrant Incentive Program

The Company has an incentive program as part of the remuneration package for management and employees. 2019 incentive warrants were issued during the second quarter 2019. Issued but not allocated warrants are held by the Company. No incentive warrants were expired or exercised during the first nine months of 2019.

| Warrants incentive programme | Exercise period                | Exercise price, SEK | Number of warrants |                |              |                |                | 30 Sep 2019      |
|------------------------------|--------------------------------|---------------------|--------------------|----------------|--------------|----------------|----------------|------------------|
|                              |                                |                     | 1 Jan 2019         | Issued 2019    | Expired 2019 | Exercised 2019 | Cancelled 2019 |                  |
| 2017 incentive programme     | 1 June 2020 – 31 December 2020 | 7.00                | 750,000            | -              | -            | -              | -              | 750,000          |
| 2018 incentive programme     | 1 May 2021 – 30 November 2021  | 9.20                | 750,000            | -              | -            | -              | -              | 750,000          |
| 2019 incentive programme     | 1 June 2022 – 28 February 2023 | 28.10               | -                  | 500,000        | -            | -              | -              | 500,000          |
| <b>Total</b>                 |                                |                     | <b>1,500,000</b>   | <b>500,000</b> | -            | -              | -              | <b>2,000,000</b> |

The dilution effect of the warrants of the in-the-money warrants are included in the weighted average number of shares after dilution which amounted to 109,173,814 for the third quarter.

## 11. Financial assets and liabilities

For financial instruments measured at fair value in the balance sheet, the following fair value measurement hierarchy is used:

- Level 1: based on quoted prices in active markets;
- Level 2: based on inputs other than quoted prices as within level 1, that are either directly or indirectly observable;
- Level 3: based on inputs which are not based on observable market data.

The Company's cash and cash equivalents, accounts receivable, and accounts payable and accrued liabilities are assessed on fair value hierarchy described above. The fair value of cash and cash equivalents, accounts receivable, and accounts payable and accrued liabilities approximate their carrying value due to the short term to maturity of these instruments. The bonds are carried at amortized cost. For the disclosure purposes, the estimated fair values of the bonds have been determined based on the adjusted period-end trading prices of the bonds on the secondary market (Level 2). As at 30 September 2019, the carrying value of the Bonds was TUSD 28,855 and the fair value was TUSD 32,915 (31 December 2018: carrying value – TUSD 31,180; fair value – TUSD 35,850).

## 12. Management of financial risk

The Company thoroughly examines the various risks to which it is exposed and assesses the impact and likelihood of those risks. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and to monitor market conditions and the Company's activities. This approach actively addresses risk as an integral and continual part of decision making within the Company and is designed to ensure that all risk is identified, fully acknowledged, understood and communicated well in advance. Nevertheless, oil and gas exploration, development and production involve high operational and financial risks, which even a combination of experience, knowledge and careful evaluation may not be able to fully eliminate or which are beyond the Company's control. The Board of Directors has overall responsibility for establishment and oversight of the Company's risk management.

A detailed analysis of Maha's operational, financial, and external risks and mitigation of those risks through risk management is described in Maha Energy's 2018 Annual Report.

Credit risk is the risk of 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 primarily held at large financial institutions.

The Company's accounts receivable is composed of:

| TUSD                              | 30 September 2019 | 31 December 2018 |
|-----------------------------------|-------------------|------------------|
| Oil and gas sales (Brazil)        | 3,786             | 3,127            |
| Sale of Canadian assets           | -                 | 280              |
| Tax credits and other receivables | 2,307             | 961              |
|                                   | <b>6,093</b>      | <b>4,368</b>     |

The majority of the Company's oil and gas sales receivables are with the Brazilian national oil company and an independent refinery called Dax Oil Refino SA (Dax). Under the marketing agreement with Dax, most of the oil sales are prepaid prior to delivery with occasional credit granted to maintain daily deliveries. In addition, the Company has made an arrangement with Dax to accumulate an amount up to maximum of TUSD 900 in accounts receivable which is guaranteed through a performance bond issued by a local bonding company and is expected to be fully recoverable. During the quarter, the Company impaired the full value of its receivable from the Sale of Canadian assets and recorded other loss of TUSD 287. Maha is no longer confident that it would be able to collect this receivable.

### 13. Management of Capital

The Company manages its capital to support the Company's strategic growth objectives and maintain financial capacity and flexibility for the purpose of funding the Company's exploration and development activities. The Company considers its capital structure to include working capital and shareholders' equity. At 30 September 2019, the Company's net working capital surplus was USD \$18.0 million (31 December 2018: USD \$19.3 million), which includes USD \$20.4 million (31 December 2018: USD \$20.2 million) of cash and USD \$2.7 million (31 December 2018: \$2.8 million) of restricted cash. The restricted cash relates to cash posted in Brazil to guarantee letters of credit for certain work commitments and support of abandonment guarantees.

The Company may adjust its capital structure by issuing new equity or debt and adjusting its capital expenditure program, as allowed pursuant to contracted work commitments. The Company considers its capital structure at this time to include shareholders' equity of USD \$83.0 million (31 December 2018: USD \$69.3 million). The Company does not have any externally imposed material capital requirements to which it is subject except for the bond covenants. 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.

### 14. Changes in non-cash Working Capital

| (TUSD)                                   | 30 September 2019 | 30 September 2018 |
|--|-------------------|-------------------|
| Change in:                               |                   |                   |
| Accounts receivable                      | (1,887)           | (205)             |
| Inventory                                | (240)             | 146               |
| Prepaid expenses and deposits            | (272)             | (225)             |
| Accounts payable and accrued liabilities | 1,866             | 1,153             |
| <b>Total</b>                             | <b>(533)</b>      | <b>869</b>        |

### 15. Pledged Assets

As at 30 September 2019, pledged assets are mainly a continuing security for the Senior Secured Bonds where Maha has entered into a pledge agreement. The pledge relates to the shares in its subsidiaries: Maha Energy 1 (Brazil) AB, Maha Energy 2 (Brazil) AB, Maha Energy Inc. and Maha Energy Finance (Luxembourg) S.A.R.L. The pledged assets for the parent company as at 30 September 2019 amounted to SEK 184.2 million (31 December 2018: SEK 184.2 million) representing the carrying value of the pledge over the shares of subsidiaries. The combined net asset value for the

Group of the subsidiaries whose shares are pledged amounted to USD 94.2 million (31 December 2018: USD 69.3 million).

The Company also granted a charge against a term deposit in Brazil to guarantee certain financial instruments in relation to its work commitments (See Note 16).

#### **16. Commitments and Contingencies**

During Q3, Maha received the pending environmental licenses on two of its concessions resulting in a requirement to fulfill its work commitments by Q1 2021 or relinquish the blocks. These work commitments have been recorded as long-term provisions and are guaranteed with certain credit instruments in place of approximately \$4.9 million. In addition, the Company has a \$2.7 million term deposit to guarantee certain work commitments of \$3.7 million. This term deposit has been presented as restricted cash on the Statement of Financial Position.

These commitments are in the normal course of the Company's exploration business and the Company's plans to fund these, if necessary, with existing cash balances, cash flow from operations and available financing sources.

## Key Financial Data

Maha believes that the alternative performance measures provide useful supplemental information to management, investors, securities analysts and other stakeholders and are meant to provide an enhanced insight into the financial development of Maha's business operational.

### Financial data from continuing operations

| TUSD                      | Q3 2019 | Q3 2018 | Nine months<br>2019 | Nine months<br>2018 |
|---------------------------|---------|---------|---------------------|---------------------|
| Revenue                   | 16,068  | 9,049   | 41,917              | 25,537              |
| Operating netback         | 12,017  | 6,553   | 31,714              | 17,481              |
| EBITDA <sup>6</sup>       | 10,663  | 5,392   | 27,514              | 13,918              |
| Net result                | 6,570   | 3,213   | 16,975              | 7,378               |
| Cash Flow from operations | 9,968   | 6,672   | 23,551              | 13,195              |

### Capital structure

|                      | Q3 2019 | Q3 2018 | Nine months<br>2019 | Nine months<br>2018 |
|----------------------|---------|---------|---------------------|---------------------|
| Return on equity (%) | 8       | 7       | 20                  | 15                  |
| Equity ratio (%)     | 62      | 49      | 62                  | 49                  |

### Other

|  | Q3 2019     | Q3 2018     | Nine months<br>2019 | Nine months<br>2018 |
|--|-------------|-------------|---------------------|---------------------|
| Weighted number of shares<br>(before dilution) | 99,429,829  | 97,998,835  | 99,006,993          | 97,452,903          |
| Weighted number of shares<br>(after dilution)  | 109,173,814 | 105,012,944 | 108,061,849         | 100,912,059         |
| Earnings per share before<br>dilution, USD     | 0.07        | 0.03        | 0.17                | 0.08                |
| Earnings per share after<br>dilution, USD      | 0.06        | 0.03        | 0.16                | 0.07                |
| Dividends paid per share                       | n/a         | n/a         | n/a                 | n/a                 |

### **Key Ratio Definition**

#### **Return on equity:**

Net result divided by ending equity balance

#### **Equity ratio:**

Total equity divided by the balance sheet total.

#### **Earnings per share:**

Net result attributable to shareholders of the Parent Company divided by the weighted average number of shares for the year.

#### **Earnings per share fully diluted:**

Net result attributable to shareholders of the Parent Company divided by the weighted average number of shares after considering any dilution effect for the year.

#### **Weighted average number of shares for the year:**

The number of shares at the beginning of the year with changes in the number of shares weighted for the proportion of the year they are in issue.

#### **Weighted average number of shares for the year fully diluted:**

The number of shares at the beginning of the year with changes in the number of shares weighted for the proportion of the year they are in issue after considering any dilution effect.

**Relevant reconciliation of Alternative Performance Measures:**

**Operating Netback**

Operating netback is calculated on a per-boe basis and is defined as revenue less royalties, transportation costs and operating expenses, as shown below:

| <i>(TUSD)</i>            | <b>Q3 2019</b> | <b>Q3 2018</b> | <b>Nine Months<br/>2019</b> | <b>Nine Months<br/>2018</b> |
|--------------------------|----------------|----------------|-----------------------------|-----------------------------|
| Revenue                  | <b>16,068</b>  | 9,049          | <b>41,917</b>               | 25,537                      |
| Royalties                | <b>(2,130)</b> | (1,052)        | <b>(5,509)</b>              | (3,181)                     |
| Operating Expenses       | <b>(1,436)</b> | (1,261)        | <b>(3,542)</b>              | (4,236)                     |
| Transportation costs     | <b>(485)</b>   | (183)          | <b>(1,152)</b>              | (639)                       |
| <b>Operating netback</b> | <b>12,017</b>  | 6,553          | <b>31,714</b>               | 17,481                      |

**EBITDA<sup>7</sup>**

Earnings before interest, taxes, depreciation and amortization and non-recurring items (such as gain on contractual liability) is used as a measure of the financial performance of the Company and is calculated as shown below:

| <i>(TUSD)</i>                            | <b>Q3 2019</b> | <b>Q3 2018</b> | <b>Nine Months<br/>2019</b> | <b>Nine Months<br/>2018</b> |
|--|----------------|----------------|-----------------------------|-----------------------------|
| Operating results                        | 9,305          | 4,570          | 23,307                      | 11,605                      |
| Depletion, depreciation and amortization | 1,534          | 743            | 4,289                       | 2,331                       |
| Foreign currency exchange loss / (gain)  | (176)          | 79             | (82)                        | (18)                        |
| <b>EBITDA</b>                            | <b>10,663</b>  | <b>5,392</b>   | <b>27,514</b>               | <b>13,918</b>               |

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<sup>7</sup> Effective 1 January 2019, implementation of IFRS 16 (Leases) did not have material impact on the EBITDA of the Company therefore prior period EBITDA has not been restated for presentation purposes.

## Financial calendar

2019 Fourth Quarter Report: 28 February 2020

2019 Annual Report: 30 April 2020

2020 First Quarter: 26 May 2020

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