



**Third Quarter and Nine months Report**  
**30 September 2017**



## Highlights

(all amounts are in USD unless otherwise noted)

For the Three and Nine months ended September 30, 2017:

- The Company closed the previously announced corporate acquisition of Gran Tierra Energy Inc.'s Brazilian business unit for TUSD 37,917 and subsequently settled final closing adjustments in its favor for TUSD 1,397, resulting in total final consideration of TUSD 36,520.
- EBITDA for the third quarter was TUSD 2,259.
- Daily oil & gas Company production for the third quarter averaged 1,671 BOEPD
- The Company signed additional gas offtake agreements to debottleneck production from the Tie Field in Brazil, through the sale of associated gas from increased oil production volumes.

### Financial Summary

|                        | Q1 2017 | Q2 2017 | Q3 2017       | Q3 2016 | 9 months<br>2017 | 9 months<br>2016 |
|------------------------|---------|---------|---------------|---------|------------------|------------------|
| Daily Volume (BOEPD)   | 132     | 242     | <b>1,671</b>  | 30      | <b>687</b>       | 47               |
| Revenue in TUSD        | 497     | 995     | <b>6,173</b>  | -       | <b>7,665</b>     | -                |
| EBITDA in TUSD         | (1,009) | (967)   | <b>2,259</b>  | (529)   | <b>283</b>       | (1,298)          |
| Net result in TUSD     | (1,303) | (3,626) | <b>(402)</b>  | (555)   | <b>(5,331)</b>   | (1,788)          |
| Earnings /share in USD | (0.02)  | (0.04)  | <b>(0.00)</b> | (0.01)  | <b>(0.06)</b>    | (0.04)           |

## Definitions

### Abbreviations

|             |                 |
|-------------|-----------------|
| <b>CAD</b>  | Canadian dollar |
| <b>SEK</b>  | Swedish krona   |
| <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</b>     | Barrels of oil equivalents                                                           |
| <b>Bbl</b>     | Barrel                                                                               |
| <b>boepd</b>   | Barrels of oil equivalent per day                                                    |
| <b>bopd</b>    | Barrels of oil per day                                                               |
| <b>Mbbl</b>    | Thousand barrels                                                                     |
| <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>MMSCF</b>   | Million standard cubic feet                                                          |
| <b>MMSCFPD</b> | Million standard cubic feet per day<br>6,000 cubic feet = 1 barrel of oil equivalent |

## Letter to shareholders

Dear Friends and Fellow Shareholders of Maha Energy AB,

It is with pleasure Maha reports Q3 USD 2.259 million EBITDA (Earnings Before Interest, Tax, Depreciation and Amortization); the first full quarter since closing of the acquisition of Grand Tierra's Brazilian operations (the "Transaction") on July 1<sup>st</sup> 2017. This of course compares favorably with Maha's negative EBITDA of USD 1.976 million for the first half of 2017.

## Highlights

Key highlights for the Q3 are:

- EBITDA for Q3 was TUSD 2,259
- Operating Result for Q3 was TUSD 1,265
- The Gran Tierra Transaction closed on 1 July 2017.
- Maha produced and sold 142,975 barrels of oil during the quarter.
- Maha produced and sold 64.774 MMSCF of gas during the quarter.
- Average Daily production for the quarter was 1 671 BOEs/day
- Company Netback USD 25.58/BOE

## Positive Cashflow

At closing of the Transaction Brent Oil Price was USD 47.08/bbl; Brent has since strengthened by some 20%. This, of course, contributes positively to Maha's Q3 cash flow. At the end of Q3, Brent oil prices were back at levels not seen since the 2014/15 when the oil commodity cycle bottomed.

## USD 11 million Cash Security

As earlier reported, to close the Transaction, Maha (in addition to the purchase price), was required to post approximately USD 11 million as cash security for surety bonds to the Agencia Nacional do Petroleo of Brazil ("ANP") for certain work obligations and abandonment liabilities. Maha was successful in negotiating a reduction in the "cash" security it needed to place by USD 7.5 million. The effect is that Maha has now freed an additional USD 7.5 million in cash originally earmarked for the surety bond security that can be deployed in developing the Tie field, faster.

As at 22 November, 2017, we settled final closing adjustments for the Transaction resulting in return of cash USD 1.4 million of the purchase price from Gran Tierra Inc.

## Next steps

### *Tie Field*

Since the close of the transaction, we have been busy optimizing production at the Tie field, removing commercial barriers to more production, and improving our technical understanding of the asset. Some of the key endeavors undertaken during the quarter were:

- Work is under way evaluating the seismic data to better understand the connection between the main field and the undrilled southern portion.
- We initiated the procurement process for the design, manufacture and installation for two separate jet pumps, one on each of the GTE4 and GTE3 wells, to boost the field's production potential. The order was placed at the end of November, and delivery is expected during the first quarter next year.
- The plans to debottleneck production by improving the ability to handle associated gas continued during the quarter, whereby, Agreements were signed to more than double our current gas offtake capacity. These new facilities are anticipated to be in place by the end of January next year.
- The marketing team in Brazil continue to find new and imaginative outlets to sell oil production including transportation of production to out of province refineries where there is demand for the product. The expectation is oil offtake capacity will grow in harmony with increased production capacity. In particular an offtake agreement was signed during the quarter to deliver 1,000 BOPD to a local refinery.
- Water injection (as previously reported) is now fully installed, commissioned and operational. This pressure maintenance program will continue during 2018 with expected continuous positive results on productivity.
- Finally, planning is underway to drill an additional well to reduce the overall drawdown on the reservoir and to provide an important option for gas re-injection. Re-injecting the produced gas will help remove any future associated gas production restrictions and improve reservoir performance.

### *Tartaruga Field*

Our work at Tartaruga field continues – both in relation to technical operations and administrative improvements and efficiencies:

- During Q3, work to re-evaluate the difficult petrophysics has resulted in a better and more accurate petrophysical understanding of the stacked reservoirs at Tartaruga.
- The technical team also completed reprocessing of the certain 3D seismic in the beach transition zone resulting in better representation of the subsurface at Tartaruga.
- Negotiations are being completed to provide for commercial offtake of associated gas from the field.
- Plans are now underway to workover the 7TTG producing well with the objective to improve productivity of the existing P6 sand and to open up previously unproduced zones.
- The previously announced 107D horizontal sidetrack is planned for the first half of 2018. We are pleased to announce that partner and regulatory approval have now been received, however, environmental requirements limit the drilling operations to the months between April and September of each year which contributes to some delay.
- An additional and separate jet pump has been ordered for Tartaruga to allow for individualized production from each well. Delivery is expected during the first quarter of 2018.
- The Company has commenced its rationalization of the Tie and Tartaruga operations. Effective November 2017, the Aracaju office has been closed and certain local staff made redundant. Tartaruga accounting and administration is now handled in Rio de Janeiro with existing staff and operations have been consolidated in the field.

### *LAK Field*

Recent laboratory core flooding work along with actual LAK hot water flood results are very encouraging and plans are underway to alter and expand the current hot water flood. As these plans are developed over the next few months, further information will be communicated with more details.

As can be seen, Q3 has been a very busy quarter with multiple projects taking shape. I am very proud of the focus and effort being put in by the Maha team in Canada, the US, and Brazil. These efforts are now beginning to translate into tangible positive results with more to come; this all sets us up for an exceptional 2018.

We thank you for your continued support.

Jonas Lindvall  
Managing Director

## Financial Report for the three and nine months ended September 30, 2017

### OPERATIONAL AND FINANCIAL REVIEW

Maha Energy AB (org number: 559018-9543) ("Maha" or the "Company") is an independent, Swedish-based, international oil and gas exploration and enhanced oil recovery production company with operations focused on Brazil and USA.

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

### 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.

### Brazil

#### Tie Field

On July 1, 2017, Maha completed the corporate acquisition of Gran Tierra Energy Inc.'s Brazilian operations (the "Tie Field Acquisition"). Following the Transaction, Maha owns and operates, through a wholly-owned subsidiary, the 100% Working Interests (WI) in six concession agreements located in the Reconcavo Basin of Brazil. One of the concessions includes the oil producing Tie field consisting of two (2) dually completed wells and one water injection well. The 38° API oil production is from two, separate, individual sandstone units and production is currently restricted due to the lack of gas offtake arrangements. During the third quarter water injection work was completed whereby water is directed to re-pressurize the reservoirs which in turn will increase the ultimate recoverable reserves and positively affect the current production.

Currently 100% of the oil produced from the Tie field is from the GTE3 well. The GTE4 well is shut in awaiting the installation of artificial lift. Reservoir production deliverability from the Tie Field exceeds current surface facilities and offtake arrangements.

Work progressed during the quarter to increase both oil and gas offtake arrangements. The Tie field is not currently connected to any oil or gas offtake pipelines. The Company completed oil offtake agreements with a local refiner for 1,000 BOPD and with three smaller buyers taking approximately a combined volume of 250 BOPD. In parallel, the Company doubled its gas offtake arrangements by increasing gas offtake from its existing compressed gas facility and arranged for gas generators to produce electricity to the electric grid. Both new offtake arrangements are expected to commence receiving Tie gas early in the first quarter of next year. These two gas offtake arrangements will take gas offtake from the current 0.706 MMSCFPD (20,000 m3/day) to a minimum of 1.554 MMSCFPD (44,000 m3/day) with the possibility to a maximum of 2.895 MMSCFPD (82,000 m3/day). Further, work is currently underway to explore additional gas capacity increase by gas re-injection and possibly Liquefied Natural Gas (LNG) stripping.

With a current gathering station handling capacity of approximately 2,000 BOPD advanced plans are under way to increase this production handling capacity by resizing certain production equipment and the installation of artificial lift in existing wells. During the quarter the company obtained bids for specially designed Hydraulic Jet Pumps and an order was placed with an international manufacturer during the fourth quarter. Delivery and installation is expected during the first quarter of 2018.

#### Tartaruga Block

In January 2017, Maha completed the purchase of an operated legal and beneficial 75% working interest in the Tartaruga development block, located in the Sergipe Alagoas Basin of Brazil. The Tartaruga oil field is located in the northern half of the 13,201 acre (53.4 km<sup>2</sup>) Tartaruga Block and produces 41° API oil from two deviated wells drilled into the early Cretaceous Penedo Formation.

During the first quarter of the year, the Company re-entered and recompleted one of the two producing wells at Tartaruga. The 107D well had a leak and about 2,600 m of parted electric wireline in the completion tubing. This was

addressed in the workover in February and March this year. Upon successfully completing the workover, the well was restored to production by installing a hydraulic jet pump. The workover doubled the gross production of the field from roughly 200 BOPD to over 400 BOPD.

During the second quarter the jet pump, which provides hydraulic power for both wells, was optimized to maximize production from both wells – a process which requires balancing the pump power between the wells as the completion strings in the wells are different diameters. Towards the end of the second quarter, the 7TTG well started showing signs of reduced productivity. Subsequent tests suggest that there is a leak in the tubing string which in turn affects the efficiency of the pump leading to lower than anticipated production. During the third quarter the Company evaluated the merits of a further workover to restore the production to the full potential of the well. During this evaluation, further 'pay behind pipe' was identified. The Company is evaluating plans to perforate this well to access previously untapped oil. Detailed petrophysical work was undertaken during this quarter, including the analysis of old sidewall cores, which provides a more accurate view of the stacked reservoirs in Tartaruga.

As a result Maha is encouraged that the application of horizontal drilling and modern-day completion practices may materially increase production and reserves. To this end, plans are being finalized to re-enter and side-track one of the existing wells or drill a new well during 2018 with a view to complete a horizontal well in the Penedo formation. Re-entries and side-tracking are a very cost-effective way to use existing wellbores, minimize impact on the environment and increase production using horizontal drilling technology. Additional wells are planned to be drilled to fully exploit the Tartaruga structure in due course.

## **USA**

The Company owns 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 produced from the LAK area is 19° API. The LAK Ranch oil field produced a total of 2,784 barrels, net to Maha in Q3 2017 (8,326 barrels for the 9 months ended September 2017) at an average price of USD 43.01 (4,019 barrels at an average price of USD 25.89 in the same nine-month period of 2016).

As at September 30, 2017, 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 operating costs, net of revenues, since the commencement of operations have been capitalized as part of exploration and evaluation costs.

For the three and nine months ending September 2017, the Company generated revenue from LAK Ranch of TUSD 118 and TUSD 357 respectively, on an average sales volume of 30 and 31 boepd, compared with TUSD 104 of revenue during the first nine months of 2016 from an average sales volume of 15 boepd.

The trial hot water flood continued during the third quarter of the year. While the results are good, unfortunately, one of the key producing wells suffered a mechanical breakdown during the quarter which has impacted the overall production. Monitoring of the hot water flood will be continued until the end of the year. Additional work was undertaken by a specialist core analysis laboratory in Calgary, Canada, during the quarter to test potential water additives to improve recovery of the oil. Among additives tested were alkaline, high salinity water and solvents. The results of these tests are expected during the latter part of the fourth quarter.

Current economic analysis, suggests a full field hot water flood development of LAK Ranch is viable and pending results of the current core flood analyses, the Company is considering proceeding with a staged further development of LAK Ranch. Independent geological studies peg the Original Oil In Place at 65 million barrels as the Best Estimate and simulation work suggest a recovery factor of 20% - accordingly the Company is well motivated to continue the development of the field.

## **Sale of Canadian Assets**

In 2016, the Company owned a 50% working interest in the Manitou property and a 30% working interest in the Marwayne property in Western Canada (the "Canadian Assets"), which were acquired from Palliser Oil and Gas Corp. in July 2014.

Effective January 1, 2017, Maha sold its interest in the Canadian Assets to Petrocapita Oil and Gas L.P. ("Petrocapita"), for a total consideration of CAD 1,650,000. The consideration is payable in two parts: (a) cash payments totaling CAD 750,000 to be paid over 9 months commencing March 15, 2017 and (b) the balance by Convertible Debenture granted by Petrocapita Income Trust, the parent of Petrocapita, maturing December 1, 2023. Interest accrues at an annual rate of 6% on the total consideration amount.

In September, 2017, the payment schedule was revised whereby Petrocapita's principal payments will be paid over a period of 17 months instead of 9 months. The Company is currently in discussions with Petrocapita on a satisfactory payment plan for interest due under the Convertible Debentures.

Because of uncertainty as to the future value of the Convertible Debenture, the Company did not assign any value to the debenture and only recognized as the fair value of the consideration the cash portion of the proceeds. Since the Canadian Assets represented all of the Company's producing assets as December 31, 2016 the operating results of the Canadian Assets during the 2016 have been reclassified as discontinued operations.

## Production

|                                         | Q1 2017 | Q2 2017 | Q3 2017 | Q3 2016 | 9 months<br>2017 | 9 months<br>2016 |
|-----------------------------------------|---------|---------|---------|---------|------------------|------------------|
| Delivered Oil (Barrels) <sup>1</sup>    | 11,886  | 21,999  | 142,975 | 2,800   | 176,860          | 12,828           |
| Delivered Gas (MMSCF)                   | -       | -       | 64,774  | -       | 64,774           | -                |
| Delivered Oil & Gas (BOE <sup>2</sup> ) | 11,886  | 21,999  | 153,770 | 2,800   | 187,656          | 12,828           |
| Daily Volume (BOEPD)                    | 132     | 242     | 1,671   | 30      | 687              | 47               |

<sup>1</sup> Includes LAK Ranch Oil delivered during the period.

<sup>2</sup> BOE is Barrels of Oil Equivalent and takes into account gas delivered and sold. 1 bbl = 6,000 SCF of gas.

Production volumes are working interest volumes before Royalties. Average production volumes increased significantly for the third quarter and nine months ended September 30, due to production additions from the Tie Field Acquisition during the third quarter and the Tartaruga Acquisition during the first quarter of 2017. As a result of these acquisitions, year-to-date average production is significantly higher than the comparable period.

## Revenue

|                                           | Q1 2017 | Q2 2017 | Q3 2017 | Q3 2016 | 9 months<br>2017 | 9 months<br>2016 |
|-------------------------------------------|---------|---------|---------|---------|------------------|------------------|
| Sales volumes (BOE)                       | 8,949   | 19,393  | 150,986 | -       | 179,328          | -                |
| Oil Price (USD/Barrel)                    | 55.55   | 51.29   | 43.38   | -       | 44.94            | -                |
| Gas Price (USD/MMSCF)                     | -       | -       | 1.42    | -       | 1.42             | -                |
| Realized Oil Price (USD/BOE) <sup>3</sup> | 55.55   | 51.29   | 40.89   | -       | -                | -                |
| Oil & Gas Revenue TUSD                    | 497     | 995     | 6,173   | -       | 7,665            | -                |
| Reference Price - Brent (\$/bbl)          | 53.59   | 49.55   | 52.17   | 46.98   | 52.55            | 43.15            |

<sup>3</sup> Oil sold from the Tie field is subject to a discount of USD 8.48/bbl for quality, processing and storage fees. Oil sold from the Tartaruga field is subject to a discount of USD 1.07/bbl for similar reasons.

Total revenue was TUSD 6,173 and TUSD 7,665 respectively for the three months and nine months ended September 30, 2017. The revenue increase was due to the Tie Field Acquisition in the third quarter and the Tartaruga Acquisition during the first quarter of 2017.

LAK Ranch volumes are excluded from sold volumes and represented 2,784 barrels for the third quarter and 8,326 barrels for the nine months ended September 30, 2017 (2,800 barrels for the third quarter and 12,828 barrels for the nine months ended September 30, 2016)

During 2016 all of the Company's revenue came from the Canadian Assets. As the assets were sold effective January 1, 2017, the Company has no revenue from those assets in 2017. Additionally, the Company's revenues and expenses from the Canadian Assets for the three and nine months of 2016 have been reclassified as discontinued operations and removed from continuing operations.

Company has not entered into any risk management contracts at this time to hedge commodity price risk.

## Royalties

|                   | Q1 2017 | Q2 2017 | Q3 2017 | Q3 2016 | 9 months<br>2017 | 9 months<br>2016 |
|-------------------|---------|---------|---------|---------|------------------|------------------|
| Royalties (TUSD)  | 163     | 244     | 832     | -       | 1,239            | -                |
| Per unit (\$/boe) | 18.24   | 12.56   | 5.51    | -       | 6.91             | -                |

Total royalty expense was TUSD 832 and TUSD 1,239 respectively for the three months and nine months ended September 30, 2017. Royalty expense increase is consistent with the production increase due to the Tie Field Acquisition in the third quarter and the Tartaruga Acquisition during the first quarter of 2017.

## Production and operating costs

|                                       | Q1 2017 | Q2 2017 | Q3 2017 | Q3 2016 | 9 months<br>2017 | 9 months<br>2016 |
|---------------------------------------|---------|---------|---------|---------|------------------|------------------|
| Production and operating costs – TUSD | 342     | 505     | 1,480   | -       | 2,327            | -                |
| Per unit (\$/boe)                     | 38.28   | 26.02   | 9.80    | -       | 12.98            | -                |

Production costs including inventory movements for the three and nine months 2017 amounted to TUSD 1,480 and TUSD 2,327 respectively as compared to nil for the three and nine months 2016. Production costs on a per boe basis are lower for the three months as compared to the nine months as a result of the lower per barrel Tie Field operations costs.

## Netback

|                  | Q1 2017 | Q2 2017 | Q3 2017 | Q3 2016 | 9 months<br>2017 | 9 months<br>2016 |
|------------------|---------|---------|---------|---------|------------------|------------------|
| Netback - TUSD   | (9)     | 247     | 3,861   | -       | 4,099            | -                |
| Netback (\$/boe) | (0.97)  | 12.71   | 25.58   | -       | 22.86            | -                |

Netback is calculated as revenue less royalties, production and operating costs.

## General and Administration expenses (“G&A”)

|            | Q1 2017 | Q2 2017 | Q3 2017 |     | 9 months<br>2017 | 9 months<br>2016 |
|------------|---------|---------|---------|-----|------------------|------------------|
| G&A – TUSD | 998     | 1,230   | 1,589   | 501 | 3,817            | 1,183            |

G&A expenses were higher mainly due to additional personnel and administrative costs associated with the expanded operations in Brazil in 2017 as well as increased costs associated with the ongoing reporting and filing requirements of a public company. Current year-to-date costs relate primarily to the acquisitions and related fundraising activities. The costs in 2016 include costs related to preparing for the Initial Public Offering (“IPO”). Following this year’s acquisitions, the Company is undergoing a review of its G&A expenses and implementing measures towards increasing synergies and efficiencies.

Incremental costs directly attributable to the acquisitions, such as legal and other professional fees, of approximately TUSD 331, have been presented as Transaction costs in the statement of operations and comprehensive income (loss) for the nine months ended September 30, 2017.

## Depletion, depreciation and amortization (“DD&A”)

|                       | Q1 2017 | Q2 2017 | Q3 2017 | Q3 2016 | 9 months<br>2017 | 9 months<br>2016 |
|-----------------------|---------|---------|---------|---------|------------------|------------------|
| DD&A expense          | 213     | 515     | 1,411   | 18      | 2,139            | 47               |
| DD&A expense (\$/boe) | 23.80   | 26.56   | 9.35    | -       | 11.93            | -                |

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 amount and type of capital spending and the amount of reserves added.

Depletion for the three months amounted to TUSD 1,411 (2016 - TUSD 18) at an average rate of USD 9.51 per boe and TUSD 2,139 (2016 - TUSD 47) at an average rate of USD 12.10 per boe for the nine months ended September 2017. The higher depletion expense is consistent with the production increase due to the GTE Acquisition in the third quarter and the Tartaruga Acquisition during the first quarter of 2017, as well as a larger capital asset base being depleted as a result of the acquisitions.

### Net financial items

Net financial items for Q3 2017 amounted to TUSD 1,459 and TUSD 2,009 respectively for the three and nine months of 2017 compared to nil and TUSD 7 in 2016. The main reason for the increase is interest expense of TUSD 1,549 on the Senior Secured Bond which was issued on May 29, 2017. Unwinding of the discount rate on the asset retirement obligations amounted to TUSD 94 for the nine months of 2017. Accretion of the bond discount amounted to TUSD 343 for the nine months of 2017.

### Share data

As at September 30, 2017 the Company had 95,155,646 shares outstanding of which 85,972,025 were class A shares and 9,183,621 were class B shares. In addition, there were 1,698,000 convertible class C2 shares, after giving effect to the expiry of 300,000 options for which the corresponding C2 shares have not been formally cancelled. In the event that the existing Maha (Canada) stock options and warrants are exercised these convertible class C2 shares will be redeemed and exchanged for Maha (Sweden) Class A shares.

In relation to completing the Tie Field Acquisition:

- In the 1<sup>st</sup> quarter of 2017 the Company completed a Directed Share Issue of 12,919,326 Maha A-shares at a share price of SEK 7.10 for gross proceeds of TSEK 91,727 (approximately USD 10.5 million).
- In the 2<sup>nd</sup> quarter of 2017, Maha completed a guaranteed rights issue and issued 12,919,326 Maha A-shares. Through the rights issue, Maha received gross proceeds amounting to TSEK 91,727 (approximately USD 10.3 million) before transaction related costs that include a guarantee provision paid in cash.
- In the 2<sup>nd</sup> quarter of 2017, the Company issued senior secured bonds ("Bonds") and warrants as part of a fully subscribed financing totaling TSEK 300,000 under a framework amount of TSEK 500,000. The Bonds have a term of four years; have a fixed interest rate coupon of 12% per annum, paid semi-annually, and were issued with a total of 13,350,000 detachable warrants for Class A shares of the Company ("Warrant(s)"). Each Warrant has a strike price of SEK 7.45 and an exercise period of four years.

### Liquidity and capital resources

As at September 30, 2017, the Company had current assets of TUSD 24,822 comprised primarily of cash and cash equivalents and prepaid expenses and deposits. The Company had current liabilities of TUSD 14,203 resulting in net working capital of TUSD 10,619 (December 31, 2016 – TUSD 6,737).

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 sufficient cash flow from production to fund its development and administrative activities. Material increases or decreases in the Company's liquidity may be substantially determined by the success or failure of its development activities, as well as its continued ability to raise capital or debt.

### Financial instruments and risks

The fair values of cash and cash equivalents, restricted cash, trade and other receivables and accounts payable and accrued liabilities approximate their carrying amount due to the short-term maturity of these financial instruments.

The bond liability is carried at amortized cost. The estimated fair values of bond liability have been determined based on period-end trading prices of on the secondary market (level 2). At September 30, 2017, the carrying amount of the bonds payable was TUSD 32,581, which represents the aggregate principal amount less unamortized issuance costs, and the fair value was TUSD 33,915.

## Risks Associated with Financial Assets and Liabilities

The Company thoroughly examines the various financial instrument risks to which it is exposed, and assesses the impact and likelihood of those risks. Where material, these risks are reviewed and monitored by management. There have not been any significant changes from the Offering documents on how these risks are reviewed and monitored by management.

The types of financial instrument risk exposures and the objectives and policies for managing these risks exposures is described below:

### a) Currency risk

At September 30, 2017, the Company's expenditures are predominantly in USD, CAD, Brazilian Reals (BRL) and Swedish Krona (SEK). Future project exploration and development expenditures are expected to be paid primarily in USD and BRL. The Company's bond liability is in SEK. A significant change in the relative currency exchange rates between the CAD, SEK, BRL and USD could have an effect on the Company's results of operations, financial position and cash flows. The Company has not hedged its exposure to currency fluctuations. As such, the Company is subject to risk due to fluctuations in the exchange rates for the CAD, SEK, BRL and USD.

### b) Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company's cash and cash equivalents are primarily held at large Canadian, Swedish and Brazilian financial institutions.

The Company's accounts receivable are composed of (TUSD):

|                            |              |
|----------------------------|--------------|
| Oil and gas sales (Brazil) | 331          |
| Sale of Canadian assets    | 511          |
| Other                      | 185          |
|                            | <b>1,027</b> |

The majority of Company's oil and gas sales are to the Brazilian national oil company and are considered to be relatively low risk. The remaining proceeds on the sale of the Canadian Assets are from a Canadian oil and gas trust, which is current on payments to Maha. In September, 2017, the payment schedule was revised whereby Petrocapita's principal payments will be paid over a period of 17 months instead of 9 months. The Company is currently in discussions with Petrocapita on a satisfactory payment plan for interest due under the Convertible Debentures.

### c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through its management of capital as outlined in the 2016 Annual Report. Accounts payable relating to oil and gas interests, accounts payable and accrued liabilities and interest on bond payable are due within the current operating period.

The Company has positive current assets of TUSD 24,822 as at September 30, 2017 which is considered sufficient to settle the current liabilities of TUSD 14,203 as at September 30, 2017.

### d) Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The risk that the Company will realize a loss as a result of a decline in the fair value of the short-term investments included in cash and cash equivalents is minimal. The Company has fixed interest on bond payable (note 11) therefore is not exposed to interest rate risk.

### e) Price risk

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

A description of the nature and extent of risks arising from the Company's financial instruments can be found in the notes to the audited consolidated financial statements for the year ended December 31, 2016 and there has been no significant change to the Company's exposure to these risks.

### 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, each of which are considered routine, non-material and consistent with doing business in Brazil. Provisions for lawsuits have been made in consultation with the Company's local legal counsel.

### Seasonal effects

Maha has no significant seasonal variations.

Approved by the Board

``Jonas Lindvall``  
Jonas Lindvall, Director

``Wayne Thomson``  
Wayne Thomson, Director

# Maha Energy AB

## Interim Condensed Consolidated Statement of Operations and Comprehensive Loss

Three and nine months ended September 30, 2017

|                                                         |      | Three months ended<br>September 30 |            | Nine months ended<br>September 30 |            |
|---------------------------------------------------------|------|------------------------------------|------------|-----------------------------------|------------|
| (Thousands of US dollars)                               | Note | 2017                               | 2016       | 2017                              | 2016       |
| <b>Revenue</b>                                          |      |                                    |            |                                   |            |
| Oil sales                                               |      | 6,173                              | -          | 7,665                             | -          |
| Royalties                                               |      | (832)                              | -          | (1,239)                           | -          |
|                                                         |      | 5,341                              | -          | 6,426                             | -          |
| <b>Expenses</b>                                         |      |                                    |            |                                   |            |
| Production and operating                                |      | 1,480                              | -          | 2,327                             | -          |
| General and administration                              |      | 1,589                              | 501        | 3,817                             | 1,183      |
| Stock-based compensation                                | 10   | 13                                 | 28         | (1)                               | 115        |
| Depletion, depreciation and amortization                |      | 1,411                              | 18         | 2,139                             | 47         |
| Foreign currency exchange loss (gain)                   |      | (417)                              | (10)       | 885                               | 10         |
|                                                         |      | 4,076                              | 537        | 9,167                             | 1,355      |
| <b>Operating result</b>                                 |      | 1,265                              | (537)      | (2,741)                           | (1,355)    |
| Finance costs                                           | 5    | 1,459                              | -          | 2,009                             | 7          |
| Transaction costs                                       | 3    | 12                                 | -          | 331                               | 436        |
| <b>Result before tax</b>                                |      | (206)                              | (537)      | (5,081)                           | (1,798)    |
| Income tax                                              |      | 196                                | -          | 196                               | -          |
| <b>Result for the period from continuing operations</b> |      | (402)                              | (537)      | (5,277)                           | (1,798)    |
| Loss on sale of Canadian assets                         | 9    | -                                  | -          | 54                                | -          |
| Loss (Income) from discontinued operations              | 9    | -                                  | 18         | -                                 | (10)       |
| <b>Results for the period</b>                           |      | (402)                              | (555)      | (5,331)                           | (1,788)    |
| Currency translation differences                        |      | 1,305                              | -          | (57)                              | -          |
| <b>Comprehensive result for the period</b>              |      | (1,707)                            | (555)      | (5,274)                           | (1,788)    |
|                                                         |      |                                    |            |                                   |            |
| Basic and diluted loss per common share                 |      | (0.00)                             | (0.01)     | (0.06)                            | (0.04)     |
| Weighted average number of common shares outstanding    |      | 95,155,646                         | 61,851,563 | 83,781,330                        | 49,387,796 |

**Maha Energy AB**  
**Interim Condensed Consolidated Balance Sheet**

| (Thousands of US dollars)                         | Note | September 30, 2017 | December 31, 2016 |
|---------------------------------------------------|------|--------------------|-------------------|
| <b>Assets</b>                                     |      |                    |                   |
| <b>Non-Current assets</b>                         |      |                    |                   |
| Deposits on acquisition                           | 3    | -                  | 5,590             |
| Exploration and evaluation assets                 | 6    | 17,624             | 17,174            |
| Property and equipment                            | 3,7  | 54,821             | 2,313             |
| Performance bonds and others                      |      | 176                | 151               |
|                                                   |      | <b>72,621</b>      | <b>25,228</b>     |
| <b>Current assets</b>                             |      |                    |                   |
| Accounts receivable                               |      | 1,027              | 115               |
| Inventory                                         |      | 268                | -                 |
| Prepaid expenses and deposits                     |      | 5,155              | 233               |
| Cash and cash equivalents                         |      | 18,372             | 6,758             |
|                                                   |      | <b>24,822</b>      | <b>7,106</b>      |
| <b>Total Assets</b>                               |      | <b>97,443</b>      | <b>32,334</b>     |
| <b>Shareholders' Equity and Liabilities</b>       |      |                    |                   |
| Shareholders' Equity                              | 10   | 46,361             | 31,136            |
| <b>Non-Current liabilities</b>                    |      |                    |                   |
| Bond payable                                      | 11   | 32,581             | -                 |
| Decommissioning provision                         | 8    | 3,237              | 829               |
| Other non-current liabilities                     |      | 1,061              | -                 |
|                                                   |      | <b>36,879</b>      | <b>829</b>        |
| <b>Current liabilities</b>                        |      |                    |                   |
| Accounts payable                                  |      | 3,711              | 369               |
| Accrued liabilities and provisions                |      | 10,492             | -                 |
|                                                   |      | <b>14,203</b>      | <b>369</b>        |
| <b>Total liabilities</b>                          |      | <b>51,082</b>      | <b>1,198</b>      |
| <b>Total liabilities and shareholders' equity</b> |      | <b>97,443</b>      | <b>32,334</b>     |

# Maha Energy AB

## Interim Condensed Consolidated Statement of Cash Flow

Three and nine months ended September 30, 2017

|                                                      |      | Three months ended<br>September 30 |                | Nine months ended<br>September 30 |                |
|------------------------------------------------------|------|------------------------------------|----------------|-----------------------------------|----------------|
| (Thousands of U.S. dollars)                          | Note | 2017                               | 2016           | 2017                              | 2016           |
| <b>Cash flow from operations</b>                     |      |                                    |                |                                   |                |
| Operating results                                    |      | (402)                              | (555)          | (5,331)                           | (1,788)        |
| Add backs:                                           |      |                                    |                |                                   |                |
| Stock based compensation                             |      | 13                                 | 28             | (1)                               | 115            |
| Depletion, depreciation and amortization             |      | 1,411                              | 18             | 2,139                             | 47             |
| Loss on sale of Canadian assets                      | 9    | -                                  | -              | 54                                | -              |
| Accretion of discount                                | 8    | 75                                 | -              | 94                                | -              |
| Accretion of loan liability                          | 11   | 279                                | -              | 344                               | -              |
| Unrealized foreign exchange amounts                  |      | (1,037)                            | (74)           | 531                               | (58)           |
| Changes in non-cash working capital                  |      | (1,671)                            | (424)          | 2,412                             | (173)          |
| <b>Cash flow from operations</b>                     |      | <b>(1,332)</b>                     | <b>(1,007)</b> | <b>242</b>                        | <b>(1,857)</b> |
| <b>Investing activities</b>                          |      |                                    |                |                                   |                |
| Corporate acquisition – Tartaruga                    | 3    | 60                                 | -              | (290)                             | (1,316)        |
| Corporate acquisition – Tie Field                    | 3    | (34,459)                           | -              | (34,459)                          | -              |
| Acquisition deposits                                 | 3    | 38,969                             | -              | (4,700)                           | -              |
| Proceeds on sale of Canadian assets                  | 9    | 40                                 | -              | 151                               | -              |
| Additions to developed and producing (D&P) assets    |      | (305)                              | -              | (920)                             | (5)            |
| Additions of exploration and evaluation (E&E) assets |      | (45)                               | (227)          | (450)                             | (771)          |
| Purchase of performance bonds                        |      | -                                  | 12             | (25)                              | 11             |
| <b>Cash flow from investment activities</b>          |      | <b>4,260</b>                       | <b>(215)</b>   | <b>(40,693)</b>                   | <b>(2,081)</b> |
| <b>Financing activity activities</b>                 |      |                                    |                |                                   |                |
| Issue of shares, net of share issue costs            | 10   | 1,767                              | 11,607         | 18,254                            | 11,225         |
| Issue of bonds, net of financing costs               | 11   | (109)                              | -              | 32,625                            | -              |
| <b>Cash flow from financing activities</b>           |      | <b>1,658</b>                       | <b>11,607</b>  | <b>50,879</b>                     | <b>11,225</b>  |
| Foreign exchange on cash and cash equivalent         |      | 462                                | -              | 1,186                             | -              |
| Net (decrease)/increase in cash                      |      | 5,048                              | 10,385         | 11,614                            | 7,287          |
| Cash and cash equivalents, beginning of period       |      | 13,324                             | 1,495          | 6,758                             | 4,593          |
| <b>Cash and cash equivalents, end of period</b>      |      | <b>18,372</b>                      | <b>11,880</b>  | <b>18,372</b>                     | <b>11,880</b>  |

# Maha Energy AB

## Interim Condensed Consolidated Statement of Changes in Equity

| (Thousands of US dollars)                | Share Capital   | Contributed Surplus | Accumulated Other Comprehensive Income (Loss) | Deficit         | Total Shareholders' Equity |
|------------------------------------------|-----------------|---------------------|-----------------------------------------------|-----------------|----------------------------|
| <b>Balance at January 1, 2016</b>        | <b>26,786</b>   | <b>1,905</b>        | <b>-</b>                                      | <b>(6,905)</b>  | <b>21,786</b>              |
| <b>Comprehensive income</b>              |                 |                     |                                               |                 |                            |
| Result for the year                      | -               | -                   | -                                             | (1,788)         | (1,788)                    |
| Currency translation difference          | -               | -                   | (72)                                          | -               | (72)                       |
| <b>Total comprehensive income</b>        | <b>-</b>        | <b>-</b>            | <b>(72)</b>                                   | <b>(1,788)</b>  | <b>(1,860)</b>             |
| <b>Transactions with owners</b>          |                 |                     |                                               |                 |                            |
| Roll up of Maha Energy Inc.              | (26,717)        | 26,717              | -                                             | -               | -                          |
| Issue of shares                          | 53              | 13,074              | -                                             | -               | 13,127                     |
| Share issue cost                         | -               | (1,946)             | -                                             | -               | (1,946)                    |
| Reduction of capital                     | (35)            | 35                  | -                                             | -               | -                          |
| Exercise of stock options                | -               | 45                  | -                                             | -               | 45                         |
| Stock based compensation                 | -               | 115                 | -                                             | -               | 115                        |
| <b>Total transactions with owners</b>    | <b>(26,699)</b> | <b>38,040</b>       | <b>-</b>                                      | <b>-</b>        | <b>11,341</b>              |
| <b>Balance at September 30, 2016</b>     | <b>87</b>       | <b>39,945</b>       | <b>(72)</b>                                   | <b>(8,693)</b>  | <b>31,267</b>              |
| <b>Balance at December 31, 2016</b>      | <b>87</b>       | <b>40,567</b>       | <b>(738)</b>                                  | <b>(8,780)</b>  | <b>31,136</b>              |
| <b>Comprehensive income (loss)</b>       |                 |                     |                                               |                 |                            |
| Result for the year                      | -               | -                   | -                                             | (5,331)         | (5,331)                    |
| Currency translation difference          | -               | -                   | 57                                            | -               | 57                         |
| <b>Total comprehensive income (loss)</b> | <b>-</b>        | <b>-</b>            | <b>57</b>                                     | <b>(5,331)</b>  | <b>(5,274)</b>             |
| <b>Transactions with owners</b>          |                 |                     |                                               |                 |                            |
| Share issuance                           | 32              | 20,645              | -                                             | -               | 20,677                     |
| Share issue cost                         | -               | (2,681)             | -                                             | -               | (2,680)                    |
| Fair market value of warrants issued     | -               | 2,211               | -                                             | -               | 2,211                      |
| Reduction of capital                     | (2)             | 2                   | -                                             | -               | -                          |
| Stock based compensation                 | -               | (1)                 | -                                             | -               | (1)                        |
| Exercise of warrants                     | -               | 3                   | -                                             | -               | 3                          |
| Exercise of stock options                | -               | 289                 | -                                             | -               | 289                        |
| <b>Total transactions with owners</b>    | <b>30</b>       | <b>20,468</b>       | <b>-</b>                                      | <b>-</b>        | <b>20,499</b>              |
| <b>Balance at September 30, 2017</b>     | <b>117</b>      | <b>61,035</b>       | <b>(681)</b>                                  | <b>(14,111)</b> | <b>46,361</b>              |

## Parent Company Income Statement

|                                | Three months ended<br>September 30 |       | Nine months ended<br>September 30 |       |
|--------------------------------|------------------------------------|-------|-----------------------------------|-------|
| (Expressed in TSEK)            | 2017                               | 2016  | 2017                              | 2016  |
| Revenue                        | -                                  | -     | -                                 | -     |
| <b>Expenses</b>                |                                    |       |                                   |       |
| General and administrative     | 1,269                              | 330   | 7,964                             | 333   |
| Net finance costs              | 2,405                              | -     | 6,494                             | -     |
| Foreign currency exchange loss | (6,987)                            | -     | 3,475                             | -     |
|                                | (3,313)                            | 330   | 17,933                            | 333   |
| Result for the period          | 3,313                              | (330) | (26,833)                          | (333) |

## Parent Company Balance Sheet in Summary

| (Expressed in TSEK)                         | September 30, 2017 | December 31, 2016 |
|---------------------------------------------|--------------------|-------------------|
| <b>Assets</b>                               |                    |                   |
| <b>Non-current assets</b>                   |                    |                   |
| Deposits on acquisitions                    | 38,303             | -                 |
| Investment in subsidiaries                  | 215,404            | 183,640           |
| Loans to subsidiaries                       | 375,921            | 60,480            |
|                                             | 629,628            | 244,120           |
| <b>Current assets</b>                       |                    |                   |
| Accounts receivable and other               | 290                | 3                 |
| Cash and cash equivalents                   | 102,807            | 43,840            |
|                                             | 103,097            | 43,843            |
| <b>Total Assets</b>                         | <b>732,725</b>     | <b>287,963</b>    |
| <b>Shareholders' Equity and Liabilities</b> |                    |                   |
| Shareholders' Equity                        | 451,740            | 287,397           |
| <b>Non-current liabilities</b>              |                    |                   |
| Bond Payable                                | 265,183            | -                 |
| <b>Current liabilities</b>                  |                    |                   |
| Accounts payable and accrued liabilities    | 15,802             | 566               |
|                                             | 15,802             | 566               |
| <b>Total liabilities</b>                    | <b>280,985</b>     | <b>566</b>        |
| <b>Total Equity and Liabilities</b>         | <b>732,725</b>     | <b>287,963</b>    |

## Parent Company Statement of Changes in Equity in Summary

| (Expressed in TSEK)                    | Share capital | Contributed surplus | Deficit         | Total Equity   |
|----------------------------------------|---------------|---------------------|-----------------|----------------|
| <b>Balance at January 1, 2016</b>      | <b>50</b>     | <b>-</b>            | <b>-</b>        | <b>50</b>      |
| Transactions under common control      | 541           | 182,998             | -               | 183,539        |
| Share issuance                         | 453           | 122,427             | -               | 122,880        |
| Share issue costs                      | -             | (17,438)            | -               | (17,438)       |
| Reduction in capital                   | (240)         | 240                 | -               | -              |
| Result for the year                    | -             | -                   | (1,634)         | (1,634)        |
| <b>Balance at December 31, 2016</b>    | <b>804</b>    | <b>288,227</b>      | <b>(1,634)</b>  | <b>287,397</b> |
| Share issuance                         | 284           | 184,388             | -               | 184,672        |
| Share issue costs                      | -             | (23,708)            | -               | (23,708)       |
| FMV of warrants issued                 | -             | 19,610              | -               | 19,610         |
| Reduction in capital                   | (20)          | 20                  | -               | -              |
| Stock based compensation               | -             | 110                 | -               | 110            |
| Exercise of warrants and stock options | -             | 1,592               | -               | 1,592          |
| Result for the period                  | -             | -                   | (26,833)        | (26,833)       |
| <b>Balance at September 30, 2017</b>   | <b>1,068</b>  | <b>470,239</b>      | <b>(28,467)</b> | <b>442,840</b> |

## Parent Company Cash Flow Statement

|                                                 | Three months ended<br>September 30 |               | Nine months ended<br>September 30 |               |
|-------------------------------------------------|------------------------------------|---------------|-----------------------------------|---------------|
| (Expressed in TSEK)                             | 2017                               | 2016          | 2017                              | 2016          |
| <b>Cash flow from operations</b>                |                                    |               |                                   |               |
| Operating result                                | 3,313                              | (330)         | (17,933)                          | (333)         |
| Accretion of bond liability                     | 2,223                              | -             | 2,796                             | -             |
| Stock based compensation                        | 110                                |               | 110                               |               |
| Change in non-cash working capital              | (7,664)                            | (1,497)       | 14,949                            | (1,497)       |
| Cash flow from operations                       | (2,018)                            | (1,827)       | (78)                              | (1,830)       |
| <b>Investing activities</b>                     |                                    |               |                                   |               |
| Deposits                                        | 330,312                            | -             | (38,303)                          | -             |
| Investment in subsidiaries                      | (31,764)                           | -             | (31,764)                          | -             |
| Loans to subsidiaries                           | (304,959)                          | (175)         | (315,441)                         | -             |
| Cash flow from investment activities            | (6,411)                            | (175)         | (385,508)                         | -             |
| <b>Financing activities</b>                     |                                    |               |                                   |               |
| Issue of shares, net of share issue costs       | 1,253                              | 100,528       | 161,166                           | 100,528       |
| Issue of bond, net of financing costs           | (550)                              | -             | 283,387                           | -             |
| Cash flow from financing activities             | 703                                | 100,528       | 444,553                           | 100,528       |
| Net increase in cash                            | (7,726)                            | 98,526        | 58,967                            | 98,698        |
| Cash and cash equivalent, beginning of period   | 110,533                            | 50            | 43,840                            | -             |
| <b>Cash and cash equivalents, end of period</b> | <b>102,807</b>                     | <b>98,576</b> | <b>102,807</b>                    | <b>98,698</b> |

# **Maha Energy AB**

## **Notes to the Interim Condensed Consolidated Financial Statements**

**Three and nine months ended September 30, 2017**

(Tabular amounts are in thousands of US Dollars, unless otherwise stated).

### **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 Company sold its Canadian producing assets effective January 1, 2017. The results from the Canadian Assets sale are reported as discontinued operations. The head office is located at Biblioteksgatan 1, 4th floor, 111 46 Stockholm, Sweden. The Company's subsidiary, Maha Energy Inc., maintains its technical office at Suite 1140, 10201 Southport Road SW, Calgary, Alberta, Canada T2W 4X9. The Company has operations offices in Newcastle, Wyoming, USA and Rio de Janeiro, Brazil.

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

#### **Roll up**

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

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

### **2. Basis of presentation**

The interim condensed 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 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.

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Financial Statements are disclosed in Note 4 of the Company's Annual Report 2016.

These Interim Financial Statements are stated in thousands of US dollars, unless otherwise noted, and have been prepared on a historical cost basis, except for certain financial instruments which are stated at fair value. Certain information and disclosures normally required to be included in the notes to the Annual Financial Statements prepared in accordance with International Financial Reporting Standards have been condensed or omitted. These Interim Financial Statements should be read in conjunction with the Annual Financial Statements. These interim financial statements have not been reviewed by Maha's auditors.

#### **Changes in Accounting Standards**

There were no new accounting standards adopted by the Company for the nine months ended September 30, 2017.

#### **Future Changes in Accounting Standards**

The following new standards and amendments have been issued but are not effective:

- IFRS 15; “Revenue from contracts with customers” deals with revenue recognition and establishes principles for reporting the nature, amount, timing, and uncertainty of revenue and cash flows arising from an entity’s contracts with customers. The standard replaces IAS 11 and IAS 18 and is effective for annual periods beginning on or after January 1, 2018. Early adoption is permitted.
- IFRS 9; “Financial Instruments” addresses the classification, measurement and recognition of financial assets and financial liabilities. The standard will replace IAS 39 and is effective for annual periods beginning on or after January 1, 2018. Early adoption is permitted.
- IFRS 16; “Leases” was issued in January 2016 and replaces IAS 17. The standard introduces a single lessee accounting model for leases with required recognition of assets and liabilities for most leases. The standard is effective for fiscal years beginning on or after January 1, 2019 with early adoption permitted if the Company is also applying IFRS 15.

Interpretation of the new IFRS standards is currently in progress; however, it is expected that the new IFRS standards will not have any material impact on the financial statements.

### Going Concern

The Company prepared these Financial Statements on a going concern basis, which contemplates the realization of assets and liabilities in the normal course of business as they become due.

### Presentation and Functional Currency

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

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

| Subsidiary                                 | Functional Currency |
|--------------------------------------------|---------------------|
| Maha Energy Inc.                           | USD                 |
| Maha Energy (USA) Inc.                     | USD                 |
| Maha Energy 1 (Brazil) AB                  | SEK                 |
| Maha Energy 2 (Brazil) AB                  | SEK                 |
| UP Petroleo Brasil Ltda                    | USD                 |
| Petro Vista Energy Petroleo do Brasil Ltda | USD                 |
| Maha Energy Brasil Ltda                    | USD                 |
| Maha Energy Finance (Luxembourg) S.A.R.L   | USD                 |
| Maha Energy Brazco (Luxembourg) S.A.R.L    | USD                 |

### Exchange Rates

For the presentation of the financial statements for the reporting period, the following exchange rates have been used:

|           | 30 September 2017 |            | 30 September 2016 |            | 31 December 2016 |            |
|-----------|-------------------|------------|-------------------|------------|------------------|------------|
| Currency  | Average           | Period end | Average           | Period end | Average          | Period end |
| SEK / USD | 8.6227            | 8.1496     | 8.3986            | 8.5800     | 8.5543           | 9.1075     |
| BRL / USD | 3.1825            | 3.1656     | -                 | -          | -                | 3.2552     |

### 3. Corporate Acquisition

#### Gran Tierra Acquisition – Brazil Operations

On July 1, 2017, Maha acquired the Brazilian business unit of Gran Tierra Energy Inc. ("Tie Field Acquisition") through the purchase of all of the shares and outstanding intercompany debt of Gran Tierra Finance (Luxembourg) S.Á.R.L., including assumed liabilities involved with the going-concern operations for the total cash consideration of TUSD 37,917 and the assumption of approximately TUSD 11,000 in Government Guarantees and Letters of Credit. Tie Field assets added to Maha's existing portfolio of Brazil assets acquired at the beginning of the year.

These Interim Financial Statements include the results of operations of Gran Tierra Brazil operations for the period following the closing of the transaction on July 1, 2017.

The Acquisition was accounted for as a business combination in accordance with IFRS 3, Business Combinations ("IFRS 3"), using the acquisition method of accounting whereby all of the assets acquired and liabilities assumed were recorded at fair value. The purchase price is preliminary and is subject to adjustments. The allocation of the total consideration is based on estimates of fair value and such estimates may be adjusted in future periods up to one year from the date of acquisition. The following table summarizes the net assets acquired:

|                                          |               |
|------------------------------------------|---------------|
| <b>Cash Consideration</b>                | <b>37,917</b> |
| Cash                                     | 3,458         |
| Accounts receivable                      | 858           |
| Inventory and materials                  | 63            |
| Prepaid and others                       | 209           |
| Property, plant and equipment            | 47,323        |
| Accounts payable and accrued liabilities | (10,424)      |
| Taxes payable                            | (136)         |
| Asset retirement obligations             | (2,373)       |
| Provision                                | (1,061)       |
| <b>Net assets acquired</b>               | <b>37,917</b> |

The fair value of property, plant and equipment has been estimated with reference to an independently prepared reserves evaluation for the acquired properties. The fair value of decommissioning obligations was initially estimated using a credit-adjusted risk-free rate of 10.5%. In addition, Maha acquired operating losses of approximately MUSD 60 and other tax basis of approximately MUSD 75. No deferred tax liabilities were recorded on the acquisition as the tax attributes were in excess of the purchase price. Deferred tax assets have not been recorded on the business combination given uncertainties that future taxable profit will be available to offset acquired tax attributes.

Oil and natural gas revenue of TUSD 5,509 and a net income of TUSD 1,521 are included in the statement of operations and comprehensive loss for the Tie Field Acquisition properties since the closing date of July 1, 2017.

If the acquisition had occurred on January 1, 2017, the incremental oil and natural gas revenue and loss recognized for the period ended September 30, 2017 and the pro forma results would have been as follows:

| Period ended September 30, 2017<br>(TUSD) | As Stated | GTE – Brazil<br>Operations | Pro Forma |
|-------------------------------------------|-----------|----------------------------|-----------|
| Oil and natural gas revenue               | 7,665     | 9,925                      | 17,590    |
| Net loss (income)                         | 5,331     | (2,974)                    | (2,357)   |

<sup>1</sup> This pro forma information is not necessarily indicative of results of operations that would have resulted had the acquisition been effected on the dates indicated.

## Tartaruga Acquisition

In January 2017, Maha completed the purchase of a legal and beneficial interest in an operated 75% working interest in the Tartaruga development block, located in the Sergipe Alagoas Basin of Brazil (the "Tartaruga Acquisition"). The purchase was completed through the acquisition of the shares of UP Petroleo Brasil Ltda ("UPP") and Petro Vista Energy Petroleo Do Brasil Ltda ("PVE").

The total purchase price of TUSD 5,940 includes loans and deposits paid in 2016 of TUSD 5,590 and an additional deposit of TUSD 350 paid in the 1<sup>st</sup> quarter of 2017 of which TUSD 100 is being held in escrow pending approval by the Brazilian Government and the Agencia Nacional do Petroleo, Gas Natural e Biocombustiveis of Brazil ("ANP") of the transfer of a 7.5% working interest in the Tartaruga field that was to have been consolidated into UPP prior to closing. The approval is considered routine and expected during the fourth quarter.

As the Company completed the acquisition in the current reporting period, and the effect of the purchase agreements was that the Company received the risks and rewards of ownership from the beginning of the reporting period, Maha has recorded the purchase as at January 1, 2017 and has included the results of its operations from that date in the result of the period.

The acquisition has been accounted for as a business combination using the acquisition method whereby the net assets acquired and the liabilities assumed are recorded at fair value. The purchase price allocation is based on management's best estimate of the fair values of the assets and liabilities acquired.

|                                        |              |
|----------------------------------------|--------------|
| <b>Cash Consideration</b>              | <b>5,940</b> |
| Cash                                   | 60           |
| Accounts receivable                    | 220          |
| Inventory                              | 198          |
| Other assets                           | 17           |
| Property, plant and equipment          | 7,098        |
| Accounts payable and other liabilities | (1,453)      |
| Decommissioning provision              | (200)        |
| <b>Net assets acquired</b>             | <b>5,940</b> |

The Company may update this allocation for up to one year from the date of acquisition if additional information or circumstances require it. For the nine months ended September 30, 2017 Maha recorded oil and gas sales of TUSD 2,256 and a loss of TUSD 971 related to this acquisition.

## 4. Segment Information

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

|                                                               | Canada | US     | Brazil | Sweden | Total         |
|---------------------------------------------------------------|--------|--------|--------|--------|---------------|
| <b>As at and for the nine months ended September 30, 2017</b> |        |        |        |        |               |
| Revenue                                                       | -      | -      | 7,665  | -      | <b>7,665</b>  |
| Non-current assets                                            | 8      | 19,178 | 53,435 | -      | <b>72,621</b> |
| Total assets                                                  | (111)  | 19,432 | 60,760 | 17,362 | <b>97,443</b> |
| <b>As at and for the nine months ended September 30, 2016</b> |        |        |        |        |               |
| Revenue                                                       | -      | -      | -      | -      | -             |
| Non-current assets                                            | 289    | 18,652 | -      | -      | <b>18,941</b> |
| Total assets                                                  | 2,010  | 18,818 | -      | 11,508 | <b>32,336</b> |

## 5. Finance Costs

|                                        | Three months ended<br>September 30 |          | Nine months ended<br>September 30 |          |
|----------------------------------------|------------------------------------|----------|-----------------------------------|----------|
|                                        | 2017                               | 2016     | 2017                              | 2016     |
| Accretion of bond liability (Note 11)  | 279                                | -        | 344                               | -        |
| Accretion of decommissioning provision | 75                                 | -        | 94                                | 7        |
| Interest and bank charges              | 1,163                              | -        | 1,631                             | -        |
| Interest income                        | (58)                               | -        | (60)                              | -        |
|                                        | <b>1,459</b>                       | <b>-</b> | <b>2,009</b>                      | <b>7</b> |

## 6. Exploration and evaluation assets

|                                          |               |
|------------------------------------------|---------------|
| <b>Balance, January 1, 2016</b>          | 16,315        |
| Expenditures in the period               | 1,015         |
| Incidental income from sale of crude oil | (156)         |
| <b>Balance, December 31, 2016</b>        | <b>17,174</b> |
| Expenditures in the period               | 717           |
| Incidental income from sale of crude oil | (267)         |
| <b>Balance, September 30, 2017</b>       | <b>17,624</b> |

As at September 30, 2017, the LAK Ranch Project had not established both technical feasibility and commercial viability and therefore remains classified as an E&E asset. Expenditures, net of revenues, for the LAK Ranch Project have been capitalized as E&E.

## 7. Property, Plant and Equipment

|                                               | Oil and gas<br>properties | Equipment and<br>Other | Total          |
|-----------------------------------------------|---------------------------|------------------------|----------------|
| <b>Cost</b>                                   |                           |                        |                |
| <b>Balance at January 1, 2016</b>             | <b>2,935</b>              | <b>1,596</b>           | <b>4,531</b>   |
| Additions                                     | -                         | 67                     | 67             |
| <b>Balance at December 31, 2016</b>           | <b>2,935</b>              | <b>1,663</b>           | <b>4,598</b>   |
| Sale of Canadian assets                       | (2,976)                   | -                      | (2,976)        |
| Tartaruga acquisition                         | 6,872                     | 226                    | 7,098          |
| Gran Tierra – Brazil Operations               | 47,323                    | -                      | 47,323         |
| Additions                                     | 963                       | (43)                   | 920            |
| Currency translation adjustment               | 140                       | (24)                   | 115            |
| <b>Balance at September 30, 2017</b>          | <b>55,257</b>             | <b>1,822</b>           | <b>57,079</b>  |
| <b>Accumulated depletion and depreciation</b> |                           |                        |                |
| <b>Balance at January 1, 2016</b>             | <b>(2,673)</b>            | <b>(113)</b>           | <b>(2,786)</b> |
| Depletion and depreciation                    | -                         | (61)                   | (61)           |
| Reversal of prior period impairment           | 562                       | -                      | 562            |
| <b>Balance at December 31, 2016</b>           | <b>(2,111)</b>            | <b>(174)</b>           | <b>(2,285)</b> |
| Sale of Canadian assets                       | 2,111                     | -                      | 2,111          |
| Depletion and depreciation                    | (2,031)                   | (108)                  | (2,139)        |
| Currency translation adjustment               | -                         | 55                     | 55             |
| <b>Balance at September 30, 2017</b>          | <b>(2,031)</b>            | <b>(227)</b>           | <b>(2,258)</b> |
| <b>Carrying amount</b>                        |                           |                        |                |
| December 31, 2016                             | 824                       | 1,489                  | 2,313          |
| <b>September 30, 2017</b>                     | <b>53,226</b>             | <b>1,595</b>           | <b>54,821</b>  |

## 8. Decommissioning provision

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

|                                                  |              |
|--------------------------------------------------|--------------|
| <b>Balance at January 1, 2016</b>                | <b>835</b>   |
| Change in estimates                              | (32)         |
| Accretion expense                                | 18           |
| Foreign exchange movement                        | 8            |
| <b>Balance at December 31, 2016</b>              | <b>829</b>   |
| Liability on assets acquired through acquisition | 2,573        |
| Liability on Canadian assets sold                | (265)        |
| Accretion expense                                | 94           |
| Foreign exchange movement                        | 6            |
| <b>Balance at September 30, 2017</b>             | <b>3,237</b> |

## 9. Discontinued Operations

In February 2017, Maha sold its interest in the Manitou and Marwayne properties (the "Canadian Assets") for a total of CAD\$1,650,000. The consideration is payable in two parts: (a) cash payments totaling CAD\$750,000 to be paid over 9 months commencing March 15, 2017 and (b) the balance by convertible Debenture granted by the purchaser, maturing December 1, 2023 (the "Debenture"). Under the Debenture arrangement, the Trust pays annual interest on the outstanding balance at 6% and Maha may convert the outstanding balance at any time after December 31, 2017 to publically traded Trust Units based on the 20 day volume weighted average trading price of the Unit at the time of conversion. The outstanding balance will be secured by a registered charge on the Canadian Assets. Based on the uncertainty of realizing any value from the Debenture, the Company has assigned it a fair value of USD Nil.

In September, 2017, the payment schedule was revised whereby Petrocapita's principal payments will be paid over a period of 17 months instead of 9 months. As at September 30, 2017 the Company has received TUSD 151 cash payment.

The results of the discontinued operations are as follows:

|                                            | Three months ended<br>September 30 |      | Nine months ended<br>September 30 |      |
|--------------------------------------------|------------------------------------|------|-----------------------------------|------|
|                                            | 2017                               | 2016 | 2017                              | 2016 |
| Revenue                                    | -                                  | 77   | -                                 | 180  |
| Expenses and other                         | -                                  | 95   | -                                 | 170  |
| Income (Loss) from discontinued operations | -                                  | (18) | -                                 | 10   |
| Loss on disposal                           | -                                  | -    | 54                                | -    |
| Result from discontinued operations        | -                                  | (18) | (54)                              | 10   |

## 10. Share Capital

|                                     | Number of Shares by Class |             |             |           |             |
|-------------------------------------|---------------------------|-------------|-------------|-----------|-------------|
| Shares outstanding                  | A                         | B           | C1          | C2        | Total       |
| <b>Balance at January 1, 2016</b>   | 50,000                    | -           | -           | -         | 50,000      |
| May 20, 2016                        |                           |             |             |           |             |
| Cancellation incorporation shares   | (50,000)                  | -           | -           | -         | (50,000)    |
| Roll up                             | 29,478,036                | 13,609,394  | 1,844,527   | 2,748,000 | 47,679,957  |
| Initial Public Offering             | 24,819,852                | -           | -           | -         | 24,819,852  |
| Final closing of Roll up            | 171,500                   | -           | -           | -         | 171,500     |
| Conversion of convertible B shares  | 1,468,599                 | (1,468,599) | -           | -         | -           |
| Issuance of shares                  | 484,212                   | -           | -           | -         | 484,212     |
| Retraction of convertible C1 shares | -                         | -           | (1,844,527) | -         | (1,844,527) |
| Exercise of Maha (Canada) options   | 100,000                   | -           | -           | (100,000) | -           |

|                                      |                   |                   |   |                  |                   |
|--------------------------------------|-------------------|-------------------|---|------------------|-------------------|
| <b>Balance at December 31, 2016</b>  | <b>56,522,199</b> | <b>12,140,795</b> | - | <b>2,648,000</b> | <b>71,310,994</b> |
| Conversion of convertible B shares   | 1,369,122         | (1,369,122)       | - | -                | -                 |
| Exercise of Maha (Canada) options    | 650,000           | -                 | - | (650,000)        | -                 |
| Exercise of warrants                 | 4,000             | -                 | - | -                | 4,000             |
| Forfeiture of options                | -                 | -                 | - | (300,000)        | (300,000)         |
| Issuance of shares                   | 25,838,652        | -                 | - | -                | 25,838,652        |
| <b>Balance at September 30, 2017</b> | <b>84,383,973</b> | <b>10,771,673</b> | - | <b>1,698,000</b> | <b>96,853,646</b> |

In the 1<sup>st</sup> quarter of 2017 the Company completed a Directed Share Issue of 12,919,326 Maha A-shares at a share price of SEK 7.10 for gross proceeds of SEK 91,727 thousand or approximately USD 10.5 million.

In the 2<sup>nd</sup> quarter of 2017, as a result of Maha's guaranteed rights issue, the Company issued 12,919,326 Maha A-shares at a share price of SEK 7.10. Through the rights issue, Maha received gross proceeds amounting to SEK 91,727 thousand before share issue costs including a guarantee provision to be paid in cash. At September 30, 2017 proceeds of approximately USD 34 thousands are outstanding and are included in accounts receivable.

#### Maha AB share purchase warrants outstanding

As part of the IPO Financing, the Company issued common share purchase warrants, each convertible into one class A share of Maha Energy AB, upon payment of the exercise price. The warrants have an exercise price of SEK 6.40 (USD 0.76) and expire on January 15, 2018.

As part of the Bond financing (Note 11), the Company issued 13,350,000 common share purchase warrants, each convertible into one class A share of Maha Energy AB, upon payment of the exercise price. The warrants have an exercise price of SEK 7.45 (USD 0.88) and expire on May 29, 2021.

The following warrants are outstanding at September 30, 2017:

|                                    | <b>Number of Warrants</b> | <b>Exercise Price</b> |
|------------------------------------|---------------------------|-----------------------|
|                                    | <b>#</b>                  | <b>USD</b>            |
| <b>Balance, January 1, 2016</b>    | -                         | -                     |
| Issued                             | 6,204,963                 | 0.76                  |
| <b>Balance, December 31, 2016</b>  | <b>6,204,963</b>          | <b>0.76</b>           |
| Exercised                          | (4,000)                   | 0.76                  |
| Issued                             | 13,350,000                | 0.88                  |
| <b>Balance, September 30, 2017</b> | <b>19,550,963</b>         | <b>0.84</b>           |

#### Maha Energy stock options

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

| Expiration date          | Number of Options | Vested           | Exercise Price | Remaining Life |
|--------------------------|-------------------|------------------|----------------|----------------|
|                          | <b>#</b>          | <b>#</b>         | <b>\$</b>      | <b>Years</b>   |
| March 31, 2018           | 898,000           | 898,000          | 0.45           | 0.50           |
| December 31, 2018        | 400,000           | 400,000          | 0.75           | 1.25           |
| December 31, 2018        | 350,000           | 350,000          | 1.25           | 1.25           |
| December 31, 2020        | 50,000            | 16,667           | 1.25           | 3.25           |
| <b>Total outstanding</b> | <b>1,698,000</b>  | <b>1,664,667</b> | <b>0.71</b>    | <b>0.91</b>    |

The following stock options are outstanding at September 30, 2017:

|                                    | Number of<br>Options<br># | Exercise<br>Price<br>\$ |
|------------------------------------|---------------------------|-------------------------|
| <b>Balance, January 1, 2016</b>    | <b>2,698,000</b>          | <b>0.69</b>             |
| Granted                            | 50,000                    | 1.25                    |
| Exercised                          | (100,000)                 | 0.45                    |
| <b>Balance, December 31, 2016</b>  | <b>2,648,000</b>          | <b>0.70</b>             |
| Exercised                          | (650,000)                 | 0.45                    |
| Forfeited                          | (300,000)                 | 1.25                    |
| <b>Balance, September 30, 2017</b> | <b>1,698,000</b>          | <b>0.71</b>             |

At the Maha Energy AB's Annual General Meeting held on June 16, 2017, an incentive program for key employees of the group was adopted. No warrants have been issued under this program as of September 30, 2017.

### Warrant Incentive Program

During the third quarter 2017, Warrants were issued to certain executives of Maha following an approval at the Annual General Meeting held on 16 June 2017. The number of issued warrants during the third quarter 2017 was 750,000 and the number of warrants allocated during the third quarter 2017 were 500,000. Issued but not allocated warrants are held by the company.

No warrants expired or were exercised during the nine months ended September 30 2017.

| Warrants outstanding   | Exercise Period                | Subscription price (SEK) | Number of Warrants |             |             |           |             |
|------------------------|--------------------------------|--------------------------|--------------------|-------------|-------------|-----------|-------------|
|                        |                                |                          | 1 Jan 2017         | Issued 2017 | 30 Jun 2017 | Allocated | Unallocated |
| 2017 incentive program | 1 June 2020 – 31 December 2020 | 7.00                     | -                  | 750,000     | 750,000     | 500,000   | 250,000     |

Each warrant shall entitle the warrant holder to subscribe for one new Share in the Company at the subscription price per share. The cost is calculated in accordance with the Black & Scholes formula where the main inputs are the factors in the above table and the expected volatility. The cost for the incentive program is included as part of administrative expenses.

## 11. Bond payable

On May 29, 2017 the Company issued 3,000 senior secured bonds (the "Bonds"), with a par value of SEK 100,000 per bond and 13,350 warrants to acquire Class A shares of Maha (the "Warrants") were issued for gross proceeds of SEK 300,000 thousand (TUSD 34,505). The net proceeds from the bond issue were primarily used for the purpose of completing the acquisition of Gran Tierra Energy Inc.'s Brazilian business. The Acquisition closed on July 1, 2017 (note 3).

The Bonds bear interest at a rate of 12% per annum calculated using a 360-day year, are payable semi-annually and mature on May 29, 2021. The Company may redeem all of the Bonds prior to maturity or repurchase any Bonds. Each warrant is exercisable into one Class A share of Maha at a price of SEK 7.45 per Warrant and expires on the maturity date of the Bond.

The fair value allocated to the Bonds of SEK 279,000 thousand (TUSD 32,090) was determined using the effective rate method by which future payments of interest and principal have been discounted using a rate of interest that would be reflective of a similar financing without a warrant issue (14.5%). The Company recorded issue costs of SEK 16,613 thousand against the initial value of the Bond.

The fair value allocated to the Warrants of SEK 21,000 thousand (TUSD 2,415) was determined to the difference between the gross proceeds and the fair value of the debt. The value of the Warrants is recorded in contributed surplus. Issue costs of USD 154 were recognized against the initial value of the Warrants.

The initial value of the Bond will accrete up to its principal amount over the term of the Bonds. For the period ended September 30, 2017 Maha recognized TUSD 12,300 of interest and TUSD 344 of accretion related to the Bonds.

|                                      | <b>TUSD</b> | <b>TSEK</b> |
|--------------------------------------|-------------|-------------|
| Principal amount of Bonds            | 34,505      | 300,000     |
| Value allocated to Warrants          | (2,415)     | (21,000)    |
| Fair value of Bonds at date of issue | 32,090      | 279,000     |
| Issue costs                          | (1,921)     | (16,613)    |
| Net Bond at date of issue            | 30,169      | 262,387     |
| Accretion of bond liability          | 344         | 2,796       |
| Effect of currency translation       | 2,068       | -           |
| Balance at September 30, 2017        | 32,581      | 265,183     |

The Company has maintenance covenants requiring that at each quarter end:

- i) Net Interest Bearing Debt to EBITDA is not greater than 3.00 (Leverage test);
- ii) Interest Coverage Ratio always exceeds 2.25; and
- iii) Cash and cash equivalents minimum amount of TUSD 5,000

The first test date for the Leverage test and Minimum Cash test shall be as at March 31, 2018 and the first test date for the Interest Coverage Ratio test will be June 30, 2018.

The terms of the Bonds contain provisions which limit the Company's ability to make certain payments and distributions, incur additional indebtedness, make certain disposals of or provide security over its assets and engage in mergers or demergers.

## **12. Financial instruments and risk management**

The fair values of cash and cash equivalents, restricted cash, trade and other receivables and accounts payable and accrued liabilities approximate their carrying amount due to the short-term maturity of these financial instruments.

Bond liability is carried at amortized cost. The estimated fair values of bond liability have been determined based on period-end trading prices of on the secondary market (level 2). At September 30, 2017, the carrying amount of the bonds payable was TUSD 32,581, which represents the aggregate principal amount less unamortized issuance costs, and the fair value was TUSD 33,915.

### **Risks Associated with Financial Assets and Liabilities**

The Company thoroughly examines the various financial instrument risks to which it is exposed, and assesses the impact and likelihood of those risks. Where material, these risks are reviewed and monitored by management. There have not been any significant changes from the Offering documents on how these risks are reviewed and monitored by management.

The types of financial instrument risk exposures and the objectives and policies for managing these risks exposures is described below:

#### **a) Currency risk**

At September 30, 2017, the Company's expenditures are predominantly in USD, CAD, Brazilian Reals (BRL) and Swedish Krona (SEK). Future project exploration and development expenditures are expected to be paid primarily in USD and BRL. The Company's bond liability is in SEK. A significant change in the relative currency exchange rates between the CAD, SEK, BRL and USD could have an effect on the Company's results of operations, financial position and cash flows. As such, the Company is subject to risk due to fluctuations in the exchange rates for the CAD, SEK, BRL and USD. The Company hedged some of its exposure to currency fluctuations subsequent to September 30, 2017 (note 16).

#### **b) Credit risk**

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company's cash and cash equivalents are primarily held at large Canadian, Brazilian and Swedish financial institutions in non-interest-bearing accounts.

The Company's accounts receivable are composed of (TUSD):

|                            |              |
|----------------------------|--------------|
| Oil and gas sales (Brazil) | 331          |
| Sale of Canadian assets    | 511          |
| Other                      | 185          |
|                            | <b>1,027</b> |

The majority of Company's oil and gas sales are to the Brazilian national oil company and are considered to be relatively low risk. The remaining proceeds on the sale of the Canadian Assets are from a Canadian oil and gas trust, which is current on payments to Maha. In September, 2017, the payment schedule was revised whereby Petrocapita's principal payments will be paid over a period of 17 months instead of 9 months. The Company is currently in discussions with Petrocapita on a satisfactory payment plan for interest due under the Convertible Debentures.

c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through its management of capital as outlined in the 2016 Annual Report. Accounts payable relating to oil and gas interests, accounts payable and accrued liabilities and interest on bond payable are due within the current operating period.

The Company has current assets of TUSD 24,822 as at September 30, 2017 which is considered sufficient to settle the current liabilities and interest expense of TUSD 14,203 as at September 30, 2017.

d) Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The risk that the Company will realize a loss as a result of a decline in the fair value of the short-term investments included in cash and cash equivalents is minimal. The Company has fixed interest on bond payable (note 11) therefore is not exposed to interest rate risk.

e) Price risk

The Company is exposed to price risk with respect to commodity prices. The Company has not entered into any hedges to mitigate this risk but may do so in the future.

A description of the nature and extent of risks arising from the Company's financial instruments can be found in the notes to the audited consolidated financial statements for the year ended December 31, 2016 and there has been no significant change to the Company's exposure to these risks.

### 13. Pledged assets

As at September 30 2017, 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: The Maha Energy 1 (Brazil) AB, Maha Energy 2 (Brazil) AB, Maha Energy Inc. and Maha Energy Finance (Luxembourg) S.A.R.L.

### 14. Prior period correction

During the preparation of the Financial Statements for the nine months ended September 30, 2017, Maha reviewed its assessment of the foreign exchange loss on the deposit for the Tie Field Acquisition. Maha re-determined that the majority of deposit was non-monetary in nature therefore foreign exchange on the deposit for the three months ended June 30, 2017 reported in the Statement of operation and comprehensive loss has to be adjusted. The amount of the error for the three months ended June 30, 2017 was a TUSD 1,193 decrease to Deposits on acquisitions, a corresponding decrease to the deficit and a corresponding decrease to the result for the period. Such correction was made in the three months ended September 30, 2017 correcting the same accounts for the nine months ended September 30, 2017.

### 15. Commitments and Contingencies

The Company currently has 7 concession agreements with ANP in Brazil. While certain of these concession agreements have outstanding work commitments a number of these are either suspended pending environmental licensing or under force majeure. The Company has credit instruments in place of approximately TUSD 8,235 to guarantee the majority of these work commitments.

Additionally, as at 30 September 2017 the Company had provisions in place for potential non-compliance penalties for ANP local content commitments, certain of the above work commitments and abandonment liabilities related to these concessions. The Company has credit instruments in place of approximately TUSD 2,301 to guarantee certain of the abandonment liabilities.

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.

## 16. Subsequent Events

On November 22, 2017 the Company settled final closing adjustments with Gran Tierra Energy Inc. in relation to the Tie Field corporate acquisition. As a result, final total consideration was adjusted lower to TUSD 36,500 and Maha has been refunded TUSD 1,400.

On November 22, 2017, the Company purchased currency options to hedge SEK denominated interest payments during 2018 on its Bonds as follows:

| Expiry      | Type               | Strike Price | Amount (SEK) | Premium (USD) |
|-------------|--------------------|--------------|--------------|---------------|
| 22 May 2018 | Buy USDPUT:SEKCALL | SEK 7.8      | 18,000,000   | 18,000        |
| 20 Nov 2018 | Buy USDPUT:SEKCALL | SEK 7.8      | 18,000,000   | 43,500        |

*Relevant reconciliation of alternative performance measure:*

|                                          | Q1 2017        | Q2 2017      | Q3 2017      | Q3 2016      | 9 months<br>2017 | 9 months<br>2016 |
|------------------------------------------|----------------|--------------|--------------|--------------|------------------|------------------|
| Operating results                        | (1,233)        | (2,773)      | 1,265        | (537)        | (2,741)          | (1,355)          |
| Depletion, depreciation and amortization | 213            | 515          | 1411         | 18           | 2,139            | 47               |
| Foreign currency exchange loss / (gain)  | 11             | 1,291        | (417)        | (10)         | 885              | 10               |
| <b>EBITDA in TUSD</b>                    | <b>(1,009)</b> | <b>(967)</b> | <b>2,259</b> | <b>(529)</b> | <b>283</b>       | <b>(1,298)</b>   |

## Financial calendar

2017 Fourth Quarter and Year-End Report: 28 February 2018

2017 Annual Report: 30 April 2018

2018 First Quarter Report: 29 May 2018

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