# CROWN POINT ENERGY INC.
## Consolidated Financial Statements

For the years ended December 31, 2016 and 2015

# MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

Management is responsible for the preparation of the consolidated financial statements and the consistent presentation of all other financial information that is publicly disclosed. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and include estimates and assumptions based on management's best judgment.

Management maintains a system of internal controls to provide reasonable assurance that assets are safeguarded and that relevant and reliable financial information is produced in a timely manner.

Independent auditors appointed by the shareholders have examined the consolidated financial statements. The Audit Committee, comprising independent members of the Board of Directors, have reviewed the consolidated financial statements with management and the independent auditors. The Audit Committee is responsible for setting the remuneration of the independent auditors. The Board of Directors has approved the consolidated financial statements on the recommendation of the Audit Committee.

| | |
|---|---|
| *"Brian Moss"* | *"Marisa Tormakh"* |
| Brian Moss<br>President and Chief Executive Officer | Marisa Tormakh<br>Vice President Finance and Chief Financial Officer |

Calgary, Alberta
March 15, 2017

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## INDEPENDENT AUDITORS' REPORT

To the Shareholders of Crown Point Energy Inc.

We have audited the accompanying consolidated financial statements of Crown Point Energy Inc. which comprise the consolidated statements of financial position as at December 31, 2016 and December 31, 2015, the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

*Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Crown Point Energy Inc. as at December 31, 2016 and December 31, 2015, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

*Emphasis of Matter*

Without modifying our opinion, we draw attention to Note 1 in the consolidated financial statements which indicates that the Company's ability to continue as a going concern is dependent upon the existence of economically recoverable reserves and upon the Company's ability to obtain additional financing to continue the development of the Company's properties and generate funds there from to meet current and future obligations. These conditions, and others described in Note 1 to the consolidated financial statements, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

KPMG LLP

Chartered Professional Accountants

March 15, 2017
Calgary, Canada

# CROWN POINT ENERGY INC.
## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
As at December 31
(United States Dollars)

| | | 2016 | | 2015 |
|---|---|---|---|---|
| **Assets** | | | | |
| Current assets: | | | | |
| Cash and cash equivalents (Note 18) | $ | 521,185 | $ | 1,053,847 |
| Short-term bonds (Note 5) | | - | | 307,672 |
| Trade and other receivables (Note 21) | | 2,434,057 | | 1,648,539 |
| Inventory | | 305,028 | | 727,427 |
| Prepaid expenses | | 779,018 | | 731,327 |
| Deposits (Note 10) | | 595,000 | | 800,000 |
| | | 4,634,288 | | 5,268,812 |
| Exploration and evaluation assets (Note 6) | | 6,336,658 | | 7,731,691 |
| Property and equipment (Note 7) | | 26,442,251 | | 32,250,082 |
| Other non-current assets (Note 8) | | 910,006 | | 917,210 |
| Deposits (Note 10) | | 700,000 | | 1,030,000 |
| | $ | 39,023,203 | $ | 47,197,795 |
| **Liabilities and Shareholders' Equity** | | | | |
| Current liabilities: | | | | |
| Trade and other payables | $ | 2,308,536 | $ | 3,463,267 |
| Current portion of bank debt (Note 10) | | 1,948,878 | | 1,162,717 |
| Current portion of decommissioning provision (Note 11) | | 182,195 | | - |
| | | 4,439,609 | | 4,625,984 |
| Bank debt (Note 10) | | 427,761 | | 1,253,469 |
| Decommissioning provision (Note 11) | | 3,818,155 | | 3,148,251 |
| Deferred tax liability (Note 17) | | 1,784,000 | | - |
| | | 10,469,525 | | 9,027,704 |
| Shareholders' equity: | | | | |
| Share capital (Note 12) | | 116,003,355 | | 116,003,355 |
| Contributed surplus | | 6,887,166 | | 6,854,813 |
| Accumulated other comprehensive loss | | (18,028,606) | | (18,122,491) |
| Deficit | | (76,308,237) | | (66,565,586) |
| | | 28,553,678 | | 38,170,091 |
| | $ | 39,023,203 | $ | 47,197,795 |

Reporting entity and going concern (Note 1)
Commitments (Note 22)
Subsequent events (Note 23)

Approved on behalf of the Board of Directors:

| | |
|---|---|
| *"Gordon Kettleson"* | *"Pablo Peralta"* |
| Gordon Kettleson, Director | Pablo Peralta, Director |

See accompanying notes to consolidated financial statements.

**CROWN POINT ENERGY INC.**
**CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS**
For the years ended December 31
(United States Dollars)

| | | 2016 | | 2015 |
|---|---|---|---|---|
| Revenue | | | | |
| Oil and gas | $ | 14,015,458 | $ | 15,142,662 |
| Royalties | | (2,568,354) | | (2,626,237) |
| | | 11,447,104 | | 12,516,425 |
| Expenses | | | | |
| Operating | | 5,351,505 | | 5,977,836 |
| General and administrative | | 3,217,320 | | 4,800,834 |
| Depletion and depreciation | | 6,695,716 | | 6,011,074 |
| Exploration and evaluation expense (Note 6) | | 2,527,270 | | 9,401,452 |
| Share-based payments | | 30,226 | | 125,442 |
| Foreign exchange gain | | (119,795) | | (882,495) |
| | | 17,702,242 | | 25,434,143 |
| Results from operating activities | | (6,255,138) | | (12,917,718) |
| Net finance expense (Note 15) | | (906,337) | | (1,144,215) |
| Other expenses (Note 16) | | (797,176) | | (1,311,427) |
| Loss before taxes | | (7,958,651) | | (15,373,360) |
| Deferred tax expense (Note 17) | | (1,784,000) | | - |
| Net loss | | (9,742,651) | | (15,373,360) |
| Exchange differences on translation of the Canadian parent company | | 93,885 | | (709,983) |
| Comprehensive loss | $ | (9,648,766) | $ | (16,083,343) |
| Net loss per share | $ | (0.06) | $ | (0.10) |
| Weighted average shares outstanding - basic and diluted (Note 14) | | 164,515,222 | | 155,794,165 |

See accompanying notes to consolidated financial statements.

**CROWN POINT ENERGY INC.**
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**
For the years ended December 31
(United States Dollars)

| | 2016 | 2015 |
|---|---|---|
| Share capital | | |
| Balance, January 1 | $ 116,003,355 | $ 107,575,856 |
| Issuance of share capital, net of costs (Note 12) | - | 8,427,499 |
| Balance, December 31 | 116,003,355 | 116,003,355 |
| | | |
| Contributed surplus | | |
| Balance, January 1 | 6,854,813 | 6,724,551 |
| Share-based payments (Note 13) | 32,353 | 130,262 |
| Balance, December 31 | 6,887,166 | 6,854,813 |
| | | |
| Accumulated other comprehensive loss | | |
| Balance, January 1 | (18,122,491) | (17,412,508) |
| Exchange differences on translation of Canadian parent company | 93,885 | (709,983) |
| Balance, December 31 | (18,028,606) | (18,122,491) |
| | | |
| Deficit | | |
| Balance, January 1 | (66,565,586) | (51,192,226) |
| Net loss | (9,742,651) | (15,373,360) |
| Balance, December 31 | (76,308,237) | (66,565,586) |
| Total shareholders' equity | $ 28,553,678 | $ 38,170,091 |

See accompanying notes to consolidated financial statements.

**CROWN POINT ENERGY INC.**
**CONSOLIDATED STATEMENTS OF CHANGES IN CASH FLOWS**
For the years ended December 31
(United States Dollars)

| | 2016 | 2015 |
|---|---|---|
| Operating: | | |
| Net loss | $ (9,742,651) | $ (15,373,360) |
| Items not affecting cash: | | |
| Depletion and depreciation | 6,695,716 | 6,011,074 |
| Exploration and evaluation expense | 2,527,270 | 9,401,452 |
| Share-based payments | 30,226 | 125,442 |
| Unrealized foreign exchange (gain) loss | (155,659) | 26,531 |
| Interest expense | 561,070 | 582,260 |
| Accretion of decommissioning provision | 59,964 | 46,783 |
| Fair value adjustment on short-term bonds | 3,471 | (20,409) |
| Other expense (income) (Note 16) | 116,637 | (214,428) |
| Deferred tax expense | 1,784,000 | - |
| | 1,880,044 | 585,345 |
| Change in non-cash working capital (Note 18) | (713,174) | 795,327 |
| Operating cash flows | 1,166,870 | 1,380,672 |
| Financing: | | |
| Bank debt proceeds, net of repayment | 409,837 | (1,075,893) |
| Proceeds from return of deposits | 535,000 | 1,455,000 |
| Interest expense | (561,070) | (582,260) |
| Proceeds from share issuance, net of costs | - | 8,427,499 |
| Financing cash flows | 383,767 | 8,224,346 |
| Investing: | | |
| Proceeds from the sale of short-term bonds | 304,201 | - |
| Exploration and evaluation - expenditures | (1,123,991) | (2,280,322) |
| Property and equipment - expenditures | (1,685,689) | (8,333,954) |
| Property and equipment - VAT recoveries | 1,495,491 | 10,443 |
| Change in other non-current assets | (148,701) | (104,632) |
| Change in non-cash working capital (Note 18) | (877,153) | (851,519) |
| Investing cash flows | (2,035,842) | (11,559,984) |
| Change in cash and cash equivalents | (485,205) | (1,954,966) |
| Foreign exchange effect on cash held in foreign currencies | (47,457) | (1,645,040) |
| Cash and cash equivalents, January 1 | 1,053,847 | 4,653,853 |
| Cash and cash equivalents, December 31 | $ 521,185 | $ 1,053,847 |

See accompanying notes to consolidated financial statements.

## 1. REPORTING ENTITY AND GOING CONCERN:

Crown Point Energy Inc. ("Crown Point" or the "Company") was incorporated under the laws of British Columbia and continued under the laws of Alberta on July 27, 2012. Crown Point is based in Calgary, Alberta and is involved in the exploration for, and development and production of petroleum and natural gas in Argentina.

The Company's registered office is Suite 2400, 525 – 8th Avenue SW, Calgary, Alberta, T2P 1G1.

These consolidated financial statements have been prepared on a going concern basis which contemplates the realization of assets and the payment of liabilities in the ordinary course of business. During the year ended December 31, 2016, the Company incurred a net loss of approximately $9.7 million. As at December 31, 2016, the Company has working capital of approximately $0.2 million and significant future capital commitments to develop its properties.

The ability of the Company to continue as a going concern and the recoverability of its assets is dependent upon the existence of economically recoverable reserves and upon the Company's ability to obtain additional financing to continue the development of the Company's properties and generate funds there from and to meet current and future obligations. The need to obtain capital to fund the existing and ongoing operations creates a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. These consolidated financial statements do not reflect adjustments in the carrying values of the assets and liabilities, expenses and the statements of financial position classifications that would be necessary if the going concern assumption were not appropriate. Such adjustments could be material.

## 2. BASIS OF PRESENTATION:

(a) Statement of compliance

The consolidated financial statements of the Company and its subsidiaries have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

The consolidated financial statements were approved and authorized for issuance by the Board of Directors on March 15, 2017.

(b) Basis of measurement

The consolidated financial statements have been prepared in accordance with IFRS on a historical cost basis.

(c) Functional and presentation currency

The functional currency of the parent company and its subsidiaries is measured using the currency of the primary economic environment in which that entity operates. The presentation currency for a company is the currency in which the company chooses to present its consolidated financial statements.

The functional currency of CanAmericas (Argentina) Energy Ltd. and Antrim Argentina S.A. is the United States dollar ("USD"); the functional currency of the Company is the Canadian dollar ("CAD").

The presentation currency of the Company is the USD.

(d) Use of judgments and estimates

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The accounting policies subject to such judgments and the key sources of estimation uncertainty that the Company believes could have the most significant impact on the reported results and financial position are as follows:

*Critical accounting judgments*

- Functional currency

  The determination of the functional currency for the Company and each of its subsidiaries was based on management's judgment of the underlying transactions, events, and conditions relevant to each entity.

- Cash-generating units

  The Company's assets are aggregated into cash-generating units ("CGUs") based on an assessment of the unit's ability to generate independent cash in-flows. The determination of the Company's CGUs was based on management's judgment in regards to shared infrastructure, geographical proximity, petroleum type and similar exposure to market risk and materiality. The allocation of assets into CGU's requires significant judgment and interpretations with respect to the way in which management monitors operations.

- Impairment

  Judgments are required to assess when impairment indicators are evident and impairment testing is required.

- Exploration and evaluation assets

  The application of the Company's accounting policy for exploration and evaluation assets requires management to make certain judgments as to future events and circumstances as to whether economic quantities of reserves have been found.

- Current and deferred taxes

  Tax interpretations, regulations and legislation in the various jurisdictions in which the Company operates are subject to change. As such, current and deferred taxes are subject to measurement uncertainty. Management uses judgment to assess deferred tax assets at the end of the reporting period to determine the likelihood that they will be realized from future taxable earnings. For more information on the Company's deferred taxes, see Note 17.

- Contingencies

  By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events. Although the Company believes it has title to its oil and natural gas properties, it cannot control or completely protect itself against the risk of title disputes or challenges.

*Key sources of estimation uncertainty*

- Reserves

  The estimate of petroleum and natural gas reserves is integral to the calculation of the amount of depletion charged to the consolidated statement of loss and comprehensive loss and is also a key determinant in assessing whether the carrying value of any of the Company's development and production assets has been impaired. Changes in reported reserves can impact asset carrying values and the decommissioning provision due to changes in expected future cash flows.

  The Company's reserves are evaluated and reported on by independent reserve engineers at least annually in accordance with Canadian Securities Administrators' National Instrument 51-101. Reserve estimation is based on a variety of factors including engineering data, geological and geophysical data, projected future rates of production, commodity pricing and timing of future expenditures, all of which are subject to significant judgment and interpretation.

- Carrying value of development and production and exploration and evaluation assets

  If any indication exists that an asset or CGU may be impaired, the Company estimates the recoverable amount. The recoverable amounts of individual assets and cash-generating units have been determined based on the higher of value-in-use and fair value less costs to sell.

  These calculations require the use of estimates and assumptions, such as estimates of proved plus probable reserves, future production rates, oil and natural gas prices, future costs and other relevant assumptions, all of which are subject to change. A material adjustment to the carrying value of the Company's development and production and exploration and evaluation assets may be required as a result of changes to these estimates and assumptions.

The Company's concessions may be subject to renewal extensions which require approval from local government authorities. The Company has been successful in obtaining approvals for certain of its concessions and is currently awaiting renewal on others. As there is no indication that pending extensions will not be approved, management has used judgment to conclude that all extensions will be approved. If the Company fails to obtain extension renewals, estimates of proved plus probable reserves may be negatively impacted.

- Depletion and depreciation

  Amounts recorded for depletion and depreciation and amounts used for impairment calculations are based on estimates of total proved and probable petroleum and natural gas reserves and future development capital. By their nature, the estimates of reserves, including the estimates of future prices, costs and future cash flows, are subject to measurement uncertainty. Accordingly, the impact to the consolidated financial statements in future periods could be material.

- Decommissioning provision

  Amounts recorded for the Company's decommissioning provision require the use of management's best estimates of future decommissioning expenditures, expected timing of expenditures and future inflation rates. The estimates are based on internal and third party information and calculations and are subject to change over time and may have a material impact on profit and loss or financial position. For more information on the Company's decommissioning provision, see Note 11.

- Deferred taxes

  Deferred taxes are based on estimates as to the timing of the reversal of temporary and taxable differences, substantively enacted tax rates and the likelihood of assets being realized. For more information on the Company's deferred taxes, see Note 17.

- Share-based payments

  The Company measures the estimated cost of its share-based payments using a Black-Scholes pricing model. Measurement inputs include: the share price on the measurement date, expected lives of options, expected forfeiture rates, risk-free rates of return and expected stock price volatility. Changes to assumptions may have a material impact on the amounts presented. For more information on the Company's share-based payments, see Note 13.

## 3. SIGNIFICANT ACCOUNTING POLICIES:

(a) Consolidation

*Subsidiaries*

These consolidated financial statements include the accounts of the Company and its wholly owned Argentine subsidiaries, CanAmericas (Argentina) Energy Ltd. and Antrim Argentina S.A.

Subsidiaries are entities controlled by the Company. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

The acquisition method of accounting is used to account for acquisitions of subsidiaries and assets that meet the definition of a business under IFRS. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their recognized amounts (generally fair value) at the acquisition date. The excess of the cost of acquisition over the recognized amounts of the identifiable assets, liabilities and contingent liabilities acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, a bargain purchase gain is recognized immediately in earnings.

*Joint arrangements*

The Company's oil and natural gas activities involve jointly controlled assets. The consolidated financial statements include the Company's share of these jointly controlled assets and a proportionate share of the relevant revenue and related costs.

*Transactions eliminated on consolidation*

Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions are eliminated in preparing the consolidated financial statements.

(b) Foreign currency translation

Foreign currency transactions are translated into the respective functional currencies of the Company and its subsidiaries using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in earnings.

The financial results and position of the Canadian parent whose functional currency is different from the presentation currency are translated as follows:

- Assets and liabilities are translated at period-end exchange rates prevailing at that reporting date; and
- Income and expenses are translated at average exchange rates for the period.

Exchange differences arising on translation of the Canadian parent are transferred directly to the Company's exchange difference on translating foreign operations on the Statement of Comprehensive Loss and are reported as a separate component of shareholders' equity titled "Accumulated Other Comprehensive Loss".

(c) Cash and cash equivalents

Cash and cash equivalents consist of cash deposits and short-term money market investments with an original maturity of three months or less.

(d) Inventory

Inventory is stated at the lower of cost and net realizable value. Cost of producing crude oil is accounted on a weighted average basis. This cost includes all costs incurred in the normal course of business in bringing each product to its present location and condition. The cost of crude oil is the producing cost, including royalties and the appropriate proportion of depletion and depreciation and overheads. Net realizable value of crude oil and refined products is based on estimated selling price in the ordinary course of business less any expected selling costs.

Crude oil lifted below or above the Company's working interest share of production results in production underlifts or overlifts. Net underlifts are recorded as inventory and net overlifts are recorded in accounts payable and accrued liabilities at fair market value.

(e) Exploration and evaluation assets ("E&E assets")

*Exploration and evaluation expenditures*

All costs incurred prior to obtaining the legal right to explore an area are expensed when incurred.

Generally, costs directly associated with the exploration and evaluation of crude oil and natural gas reserves are initially capitalized. Exploration and evaluation costs are those expenditures for an area where technical feasibility and commercial viability has not yet been demonstrated. These costs generally include unproved property acquisition costs, geological and geophysical costs, sampling and appraisals, drilling and completion costs, the projected cost of retiring the assets and any directly attributable general and administrative expenses. Interest and borrowing costs incurred on E&E assets are not capitalized.

E&E costs are not depleted and are accumulated in cost centres by well, field or exploration area pending determination of technical feasibility and commercial viability, which is assessed at least annually. Technical feasibility and commercial viability is generally considered to be demonstrable when proved or probable reserves have been assigned and there is a reasonable assessment of the economics associated with the future production of those reserves, required government and regulatory approvals have been obtained or are likely to be obtained, and management has made the decision to proceed with development and production of those reserves by incurring the future capital costs attributed to them. When the technical feasibility and commercial viability of extracting a mineral resource are demonstrable, E&E assets will be tested for impairment and reclassified from exploration assets to development and production assets, a separate category within property and equipment.

*Impairment*

E&E assets are assessed for impairment when facts and circumstances suggest that the carrying amount exceeds the recoverable amount and when they are reclassified to development and production ("D&P") assets. For the purpose of impairment testing, E&E assets are grouped by concession or field with other E&E and D&P assets belonging to the same cash-generating unit (''CGU''), which is the lowest level at which there are identifiable cash inflows that are largely independent of the cash inflows of other groups of assets. The impairment loss will be calculated as the excess of the carrying value over recoverable amount of the E&E impairment grouping and any resulting impairment loss is recognized in earnings. Recoverable amount is determined by reference to the greater of value in use or fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Fair value less cost to sell is determined as the amount that would be obtained from the sale of the assets in an arm's length transaction between knowledgeable and willing parties. The fair value less cost to sell of oil and gas assets is generally determined as the net present value of the estimated future cash flows expected to arise from the continued use of the assets, including any expansion prospects, and its eventual disposal, using assumptions that an independent market participant may take into account. These cash flows are discounted by an appropriate discount rate which would be applied by such a market participant to arrive at a net present value of the assets.

(f) Property and equipment

*Development and production expenditures*

D&P assets include costs incurred in developing commercial reserves and bringing them into production, together with the E&E expenditures incurred in finding the commercial reserves that have been reclassified from E&E assets as outlined above, the projected cost of retiring the assets and any directly attributable general and administrative expenses. Items of property and equipment, including D&P assets, are carried at cost less accumulated depletion and depreciation and accumulated impairment losses.

When significant parts of an item of property and equipment, including D&P assets, have different useful lives, they are accounted for as separate items (major components).

Gains and losses on disposal of an item of property and equipment, including D&P assets, are determined by comparing the proceeds of disposal with the carrying amount of the item and are recognized in earnings.

*Subsequent costs*

Costs incurred subsequent to the determination of technical feasibility and commercial viability, costs of replacing parts of property and equipment and workovers of property and equipment are recognized only if they increase the economic benefits of the assets to which they relate. All other expenditures are recognized in earnings when incurred. The carrying amounts of previous inspections or any replaced or sold components are derecognized. The costs of day-to-day servicing of an item of property and equipment are recognized in earnings as incurred.

*Depletion and depreciation*

The net book value of producing assets are depleted on a field-by-field basis using the unit of production method with reference to the ratio of production in the year to the related proved and probable reserves, taking into account estimated future development costs necessary to bring those reserves into production. For purposes of these calculations, relative volumes of natural gas production and reserves are converted at the energy equivalent conversion rate of six thousand cubic feet of natural gas to one barrel of crude oil.

Other assets are depreciated over the estimated useful lives of the assets using a 20% declining balance basis for Canadian office furniture and equipment, a straight line basis over 3 – 10 years for Argentina office furniture and equipment and a straight line basis over the term of the lease for all leasehold improvements.

The Company assesses the method of depreciation, useful lives and residual values at least annually.

*Impairment*

At the end of each reporting period, the Company reviews the D&P assets for circumstances that indicate the assets may be impaired. Assets are grouped together into CGUs for the purpose of impairment testing. If any such indication of impairment exists, the Company makes an estimate of its recoverable amount. A CGUs recoverable amount is the higher of its fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Value in use is generally computed by reference to the present value of future cash flows expected to be derived from the production of proved and probable reserves.

Fair value less cost to sell is determined as the amount that would be obtained from the sale of a CGU in an arm's length transaction between knowledgeable and willing parties. The fair value less cost to sell of oil and gas assets is generally determined as the net present value of the estimated future cash flows expected to arise from the continued use of the CGU, including any expansion prospects, and its eventual disposal, using assumptions that an independent market participant may take into account. These cash flows are discounted by an appropriate discount rate which would be applied by such a market participant to arrive at a net present value of the CGU. When the recoverable amount is less than the carrying amount, the asset or CGU is impaired. For impairment losses identified on a CGU, the loss is allocated on a pro rata basis to the assets within the CGU. The impairment loss is recognized as an expense in earnings.

At the end of each subsequent reporting period these impairments are assessed for indicators of reversal. Where an impairment loss subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss have been recognized for the asset or CGU in prior periods. A reversal of an impairment loss is recognized in earnings.

(g) Decommissioning provision

The Company recognizes a decommissioning provision in the period in which a well is drilled or acquired and a reasonable estimate of the future costs associated with removal, site restoration and asset retirement can be made. The estimated decommissioning provision is recorded with a corresponding increase in the carrying amount of the related cost centre.

Decommissioning obligations are measured at the present value of management's best estimate of the expenditures required to settle the present obligation at the statement of financial position date. Subsequent to the initial measurement, the provision is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as finance costs whereas increases/decreases due to changes in the estimated future cash flows are capitalized. Actual costs incurred upon settlement of the decommissioning obligations are charged against the provision to the extent the provision was established.

(h) Taxes

Taxes on earnings for the periods presented are comprised of current and deferred tax. Taxes are recognized in earnings except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recorded, using the statement of financial position method, on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. However, deferred tax is not recorded on taxable temporary differences arising on the initial recognition of goodwill or on the initial recognition of assets and liabilities in a transaction other than a business combination that affect neither accounting nor taxable profit or loss. Deferred tax is also not recorded on differences relating to investments in subsidiaries and jointly controlled entities to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient future taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

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

(i) Financial instruments

*Non-derivative financial instruments*

Non-derivative financial instruments comprise cash and cash equivalents, short-term bonds, trade and other receivables, interest-bearing bonds included in other non-current assets, deposits, trade and other payables and bank debt. Non-derivative financial instruments are recognized initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below:

- Financial assets at fair value through profit or loss

  An instrument is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's risk management or investment strategy. Upon initial recognition, attributable transaction costs are recognized in earnings when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognized in earnings. The Company has classified cash and cash equivalents as fair value through profit or loss.

- Other

  Other non-derivative financial instruments, such as short-term bonds, trade and other receivables, interest-bearing bonds, deposits, trade and other payables and bank debt are measured at amortized cost using the effective interest method, less any impairment losses.

*Derivative financial instruments*

The Company has not entered into any financial derivative contracts.

(j) Impairment of financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognized in earnings. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in earnings.

(k) Share capital

Common and preferred shares are classified as equity. Incremental costs directly attributable to the issue of common shares are recognized as a deduction from equity.

(l) Share-based payments

The Company follows the fair value method of accounting for stock options. The fair value of each stock option is calculated using the Black-Scholes option pricing model and is charged to income over the vesting period of the option, with a corresponding increase recorded in contributed surplus. Forfeitures are accounted for at grant date and adjusted based on actual vesting. Upon exercise of the stock option, the consideration received plus the amount previously recorded in contributed surplus is recorded as an increase to share capital.

(m) Per share amounts

The Company presents basic and diluted per share data for its common shares. Basic per share amounts are calculated by dividing the profit (loss) attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted per share amounts are determined by adjusting earnings attributable to common shareholders and the weighted average number of common shares outstanding, adjusted, for the effects of all dilutive potential common shares.

(n) Revenue recognition

Petroleum and natural gas revenues are recognized when title and risks pass to the purchaser and payment is reasonably assured.

(o) Other income recognition

Petróleo Plus income is recognized when proceeds are received from the sale of Petróleo Plus credits or when government-issued bonds are received for Petróleo Plus certificates. Oil Incentive Program income and export tax recovery income is recognized when proceeds are received.

(p) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under the Company's short-term incentive bonus plan as a result of service provided by employees once the obligation can be estimated reliably.

(q) Finance income and expenses

Finance expense comprises financing fees and bank charges related to bank stamp taxes charged in Argentina on cash transfers, interest on bank debt and accretion of the decommissioning provision.

Interest income is recognized in earnings as it accrues using the effective interest method.

(r) Changes in accounting standards

On January 1, 2016, the Company adopted amendments to *IFRS 11 Joint Arrangements.* The adoption of these amendments had no impact on the amounts recorded in the consolidated financial statements for the year ended December 31, 2016.

(s) New and amended standards not yet adopted

The Company has reviewed new and amended accounting pronouncements that have been issued but are not yet effective and determined that the following may have an impact on the Company:

*IFRS 2 Share-based Payment*

In June 2016, the International Accounting Standards Board ("IASB") issued amendments to IFRS 2 Share-based Payment to clarify the accounting requirements related to classification and measurement of share-based payment transactions. The amendments are effective for annual periods beginning on or after January 1, 2018. The Company is currently assessing the impact of *IFRS 2* on its consolidated financial statements.

*IFRS 9 Financial Instruments*

In July 2014, the IASB issued the final version of *IFRS 9 Financial Instruments* which replaces *IAS 39 Financial Instruments: Recognition and Measurement*. *IFRS 9* introduces a single approach to determine whether a financial asset is measured at amortized cost or fair value based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets and introduces a new expected credit loss model for calculating impairment of financial assets. For financial liabilities where the fair value option is applied, any change in fair value resulting from an entity's own credit risk is recorded in other comprehensive income rather than the statement of income, unless this creates an accounting mismatch. The Company anticipates that adoption of *IFRS 9* will result in changes to the classification of the Company's financial assets but will not will not change the classification of the Company's financial liabilities or result in material changes in the carrying values of the Company's financial instruments. *IFRS 9* also contains a new model to be used for hedge accounting for risk management contracts, however, the Company does not currently have any risk management contracts. *IFRS 9* is effective for annual periods beginning on or after January 1, 2018.

*IFRS 15 Revenue from Contracts with Customers*

In May 2014, the IASB issued *IFRS 15 Revenue from Contracts with Customers* which requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive, when control is transferred to the purchaser. Disclosure requirements have also been expanded. *IFRS 15* is required to be adopted retrospectively for annual periods beginning on or after January 1, 2018. The Company is currently in the process of reviewing its revenue streams and underlying contracts to determine the impact, if any, the adoption of *IFRS 15* will have on its consolidated financial statements.

*IFRS 16 Leases*

In January 2016, the IASB issued *IFRS 16 Leases* which replaces the previous leases standard, *IAS 17 Leases*. *IFRS 16* eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessors continue to classify leases as operating leases or finance leases, and account for those two types of leases differently. *IFRS 16* is effective for periods beginning on or after January 1, 2019. The Company is currently assessing the impact of *IFRS 16* on its consolidated financial statements.

*IAS 7 Statement of Cash Flows*

Amendments to *IAS 7 Statement of Cash Flows* require disclosures that enable financial statement users to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments are effective for annual periods beginning on or after January 1, 2017 and are not expected to have a significant impact on the Company's consolidated financial statements.

## 4. DETERMINATION OF FAIR VALUES:

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(a) Property and equipment and E&E assets

The value of property and equipment and E&E assets recognized in a business combination is based on fair values. The fair value of property and equipment is the estimated amount for which property and equipment could be exchanged on the acquisition date between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The fair value of petroleum and natural gas assets (included in property, and equipment) and E&E assets is estimated with reference to the discounted cash flows expected to be derived from oil and natural gas production based on externally prepared reserve reports. The risk-adjusted discount rate is specific to the asset with reference to general market conditions.

(b) Cash and cash equivalents, short-term bonds, trade and other receivables and trade and other payables

The fair values of cash and cash equivalents, short-term bonds, trade and other receivables and trade and other payables are estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. At December 31, 2016 and 2015, the fair value of these balances approximated their carrying amount due to their short term to maturity.

(c) Other non-current assets, deposits and bank debt

The fair values of interest-bearing bonds included in other non-current assets, deposits and bank debt are based on the discounted present value of future cash flows and approximates carrying amount.

(d) Stock options

The fair value of stock options is measured using a Black-Scholes pricing model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected forfeiture rate (based on historic forfeitures), expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). See Note 13.

(e) Financial instruments

The Company determines the fair value of financial instruments according to the following hierarchy based on the amount of observable inputs used to value the instrument.

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

Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward rates for interest rate, time value and volatility factors, which can be substantially observed or corroborated in the marketplace. Interest-bearing bonds included in other non-current assets, deposit and bank debt are Level 2 financial instruments.

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

Assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement within the fair value hierarchy level.

## 5. SHORT-TERM BONDS:

| | 2016 | 2015 |
|---|---|---|
| BONAD 2018 | $ – | $ 52,583 |
| BONAR 2024 | – | 255,089 |
| | $ – | $ 307,672 |

In July 2015, the Government of Argentina issued a new decree under which the Government offered two publicly-traded bonds to qualifying companies with outstanding certificates under the cancelled Petróleo Plus Program. The bonds are comprised of:

- Bonad 2018 2.4% coupon rate bond ("BONAD 2018"), denominated in USD, settled in Pesos and maturing in March 2018; and

**(United States dollars)**

- Bonar 2024 8.75% coupon rate bond ("BONAR 2024"), denominated and settled in USD and maturing in May 2024.

In September 2015, the Company received $57,453 of BONAD 2018 bonds and $229,810 of BONAR 2024 bonds. As at December 31, 2015, the bonds had an aggregate fair value of $307,672 based on the December 31, 2015 quoted market price of each bond resulting in the recognition of a $20,409 fair value adjustment in the 2015 consolidated statement of loss and comprehensive loss.

The Company sold the bonds in February 2016 for net proceeds of $304,201.

## 6. EXPLORATION AND EVALUATION ASSETS (''E&E''):

| | 2016 | 2015 |
|---|---|---|
| Carrying amount, beginning of year | $ 7,731,691 | $ 14,828,994 |
| Additions | 1,125,370 | 2,280,322 |
| Decommissioning changes | 6,867 | 23,827 |
| E&E expense | (2,527,270) | (9,401,452) |
| Carrying amount, end of year | $ 6,336,658 | $ 7,731,691 |

E&E assets consist of the Company's intangible exploration projects in Argentina which are pending the determination of proven or probable reserves. Additions represent the Company's share of costs incurred on E&E assets during the period. E&E assets are not depreciated or depleted.

E&E expense:

During 2016, the Company recognized $2,527,270 of E&E expense in relation to exploration expenditures on two wells in the Cerro Los Leones concession as the wells are not expected to be proven commercially viable or technically feasible without further significant capital investment. The Company incurred $898,585 of expenditures in 2016 and $1,628,685 in 2015.

During 2015, the Company recognized $9,401,452 of E&E expense in relation to expenditures on the Cerro Los Leones Concession on relinquished acreage and an unsuccessful exploration well.

Capitalized amounts:

The amounts capitalized as exploration and evaluation assets in Argentina during 2016 include $187,959 of general and administrative costs (2015 – $111,847) and $1,379 of share-based payments (2015 – $nil).

As at December 31, 2016, exploration and evaluation assets in Argentina include $1.5 million of Value Added Tax ("VAT") (2015 – $1.4 million). See Note 9.

Impairment:

The Company did not identify indicators of impairment in relation to the remaining E&E assets as at December 31, 2016 and 2015.

**(United States dollars)**

## 7. PROPERTY AND EQUIPMENT:

| | Argentina | | Canada | |
|---|---|---|---|---|
| | Development and Production Assets | Other Assets | Other Assets | Total |
| **Cost:** | $ | $ | $ | $ |
| Balance at December 31, 2014 | 40,173,287 | 522,041 | 699,807 | 41,395,135 |
| Additions | 8,263,925 | 51,533 | 23,316 | 8,338,774 |
| VAT recoveries (Note 9) | (10,443) | – | – | (10,443) |
| Decommissioning changes (Note 11) | 968,217 | – | – | 968,217 |
| Effect of change in exchange rates | – | – | (115,659) | (115,659) |
| Balance at December 31, 2015 | 49,394,986 | 573,574 | 607,464 | 50,576,024 |
| Additions | 1,598,355 | 88,082 | – | 1,686,437 |
| VAT recoveries (Note 9) | (1,495,491) | – | – | (1,495,491) |
| Lease termination (Note 16(h)) | – | – | (366,485) | (366,485) |
| Decommissioning changes (Note 11) | 785,268 | – | – | 785,268 |
| Effect of change in exchange rates | – | – | 20,539 | 20,539 |
| Balance at December 31, 2016 | 50,283,118 | 661,656 | 261,518 | 51,206,292 |
| **Accumulated depletion and depreciation:** | | | | |
| Balance at December 31, 2014 | 11,700,526 | 254,937 | 376,448 | 12,331,911 |
| Depletion and depreciation | 5,889,710 | 108,585 | 61,405 | 6,059,700 |
| Effect of change in exchange rates | – | – | (65,669) | (65,669) |
| Balance at December 31, 2015 | 17,590,236 | 363,522 | 372,184 | 18,325,942 |
| Depletion and depreciation | 6,381,884 | 173,906 | 50,296 | 6,606,086 |
| Lease termination (Note 16(h)) | – | – | (179,817) | (179,817) |
| Effect of change in exchange rates | – | – | 11,830 | 11,830 |
| Balance at December 31, 2016 | 23,972,120 | 537,428 | 254,493 | 24,764,041 |
| **Net carrying amount:** | | | | |
| At December 31, 2015 | 31,804,750 | 210,052 | 235,280 | 32,250,082 |
| At December 31, 2016 | 26,310,998 | 124,228 | 7,025 | 26,442,251 |

Capitalized amounts:

The amounts capitalized as D&P assets in Argentina during the year ended December 31, 2016 include $154,477 of general and administrative costs and $748 of share-based payments (2015 – $290,419 and $4,820, respectively).

As at December 31, 2016, D&P assets in Argentina include $1.5 million of VAT (2015 – $3.0 million). See Note 9.

Future development costs:

The depletion expense calculation for the year ended December 31, 2016 included $22.6 million (2015 – $32.4 million) for estimated future development costs associated with proved and probable reserves in Argentina.

Impairment:

The Company identified indicators of impairment in relation to its TDF CGU as at December 31, 2016 and 2015 and performed an impairment tests. Management estimated the recoverable amount of the TDF CGU based on fair value less costs to sell. The estimated recoverable amount for the TDF CGU was based on discounted after-tax cash flows expected to be derived from the TDF CGU's proved plus probable reserves from the externally prepared December 31, 2016 and 2015 reserve reports. As at December 31, 2016 and 2015, the TDF CGU was determined not to be impaired as the estimated recoverable amount at each reporting date was higher than the related carrying amount.

**(United States dollars)**

## 8. OTHER NON-CURRENT ASSETS:

Other non-current assets are comprised of interest bearing bonds and long-term receivables for which fair value approximates the carrying amount.

| | | 2016 | | 2015 |
|---|---|---|---|---|
| Interest-bearing bonds (a) | $ | 72,522 | $ | 112,040 |
| Long-term receivables (b) | | 881,397 | | 847,687 |
| | | 953,919 | | 959,727 |
| Current portion of interest-bearing bonds included in trade and other receivables | | (43,913) | | (42,517) |
| Total non-current assets | $ | 910,006 | $ | 917,210 |

(a) Interest-bearing bonds

In 2009, the Argentina state-owned natural gas transportation company commenced a project to increase capacity on the pipeline connecting Tierra del Fuego ("TDF") with the mainland. Antrim Argentina was obligated to invest in the project through the purchase of ARS denominated interest-bearing bonds issued by a national trust created by the Argentine government. As at December 31, 2016, the interest rate for the period was 26.3% (2015 – 22.5%). Repayment of the bonds is in thirty quarterly installments of principal that commenced in January 2011.

(b) Long-term receivables

Long-term receivables primarily relate to ARS denominated Minimum Presumptive Income Tax paid by the Argentine subsidiaries which can be applied against future taxable income of the subsidiaries.

## 9. VAT:

| | | 2016 | | 2015 |
|---|---|---|---|---|
| Included in prepaid expenses | $ | 64,303 | $ | 51,910 |
| Included in E&E assets (Note 6) | | 1,517,404 | | 1,403,915 |
| Included in property and equipment (Note 7) | | 1,476,108 | | 2,971,599 |
| | $ | 3,057,815 | $ | 4,427,424 |

VAT on purchases is applied against VAT on sales to reduce the amount paid to the Argentine government. VAT is included in prepaid expenses when amounts are expected to be offset with VAT on current sales. VAT is included in E&E assets and property and equipment when related sales have not yet commenced (E&E assets) or sales are lower than capital expenditures (property and equipment) and VAT amounts are not expected to be offset with VAT on sales within the next 12 months. VAT does not expire and may be carried forward indefinitely.

**(United States dollars)**

## 10. BANK DEBT:

| | | 2016 | | 2015 |
|---|---|---|---|---|
| Development loan facility (a) | $ | – | $ | 948,710 |
| Loan facility (b) | | – | | – |
| Loan facility (c) | | 1,031,661 | | 1,467,476 |
| Loan facility (d) | | 444,978 | | – |
| Loan facility (e) | | – | | – |
| Loan facility (f) | | 900,000 | | – |
| | | 2,376,639 | | 2,416,186 |
| Current portion of bank debt | | (1,948,878) | | (1,162,717) |
| Long-term portion of bank debt | $ | 427,761 | $ | 1,253,469 |

(a) The Company had an ARS denominated development loan facility with HSBC Argentina bearing interest at 15.25% per annum, calculated and paid monthly. The use of the loan was restricted to the acquisition of capital assets and/or the building of facilities necessary for the production and/or commercialization of oil and natural gas from the Company's TDF concession.

The loan principal was repayable in monthly installments of ARS 1,116,667 commencing December 8, 2014 until December 8, 2016 and was secured by a USD denominated letter of credit held as a guaranteed investment certificate ("GIC") on deposit with a major Canadian financial institution.

As at December 31, 2015, the balance owing under the development loan facility was ARS 12,283,329 ($948,710) secured by an $800,000 GIC. $685,000 of the GIC was released back to the Company during 2016 at various dates as the Company made monthly loan repayments. The loan was fully repaid on November 8, 2016 and the final $115,000 GIC was released back to the Company in January 2017 (Note 23(a)).

(b) The Company obtained a second ARS denominated loan facility in the amount of ARS 14,500,000 in November 2014. ARS 6,000,000 at an interest rate of 30.5% per annum and was repaid on April 12, 2015 and ARS 8,500,000 at an interest rate of at 34% per annum was repaid on October 16, 2015. Interest was calculated and paid monthly. The loan was secured by a USD denominated GIC in the amount of $1,700,000 on deposit with a major Canadian financial institution which was released back to the Company in May 2015.

(c) The Company has an ARS denominated loan facility with HSBC Argentina which bears interest at 19%, calculated and paid monthly commencing on the date the amounts are drawn.

On July 17, 2015, the Company drew ARS 9,500,000 ($1,038,512) of proceeds under the loan facility obtained with HSBC Argentina on June 30, 2015, at which time the Company provided the lender security in the form of a $350,000 (2015 – $530,000) US denominated letter of credit held as a GIC with a major Canadian financial institution. The loan principal is repayable in 24 monthly installments commencing August 17, 2016.

On October 23, 2015, the Company drew an additional ARS 9,500,000 ($997,941) of proceeds under this loan facility, at which time the Company provided the lender security in the form of a USD denominated $350,000 (2015 – $500,000) letter of credit held as a GIC with a major Canadian financial institution. The ARS 9,500,000 loan principal is repayable in 24 monthly installments commencing November 23, 2016.

Antrim Argentina is subject to two financial covenants, tested on an annual basis, both of which were met as at December 31, 2016:

- Financial Debt to EBITDA ratio of 2 or less to 1 as defined in the loan agreement. In simplified terms, Financial Debt is the total of Antrim Argentina's liabilities, excluding trade and other payables and decommissioning liabilities, and EBITDA is Antrim Argentina's results from operating activities plus depreciation and depletion.
- Interest Coverage of 3.0 times or higher as defined in the loan agreement. In simplified terms, the Interest Coverage Ratio is determined as EBITDA divided by the sum of Antrim Argentina's interest, commissions, fees, pre-cancellation and other amounts related to Financial Debt, excluding principal payments.

As at December 31, 2016, the balance owing under this loan facility was ARS 16,229,167 ($1,031,661) (2015 – ARS 19,000,000 ($1,467,476)).

(d) On February 2, 2016, the Company obtained an ARS 10,000,000 ($709,300) loan facility with HSBC Argentina. The loan is secured by a $730,000 USD denominated letter of credit held as a GIC with a major Canadian financial institution, bears interest at 34%, calculated and paid monthly commencing on February 2, 2016 and was repayable in one installment on May 2, 2016.

On May 2, 2016, the Company renewed the ARS 10,000,000 ($702,700) loan facility at an interest rate of 38.75%, calculated and paid monthly commencing May 2, 2016 and repayable in one installment on July 2, 2016.

On July 4, 2016, the Company repaid ARS 3,000,000 ($199,750) of the ARS 10,000,000 loan facility at which time $250,000 of the $730,000 USD denominated letter of credit was returned to the Company. The Company renewed the remaining ARS 7,000,000 ($466,100) of the loan facility which is secured by a $480,000 USD denominated letter of credit held as a GIC with a major Canadian financial institution, bears interest at 36%, calculated and paid monthly commencing on July 4, 2016 and is repayable in one installment on September 6, 2016.

On September 6, 2016, the Company renewed the loan facility at an interest rate of 31% per annum, calculated and paid monthly commencing September 6, 2016 and repayable in one installment on October 6, 2016. On October 7, 2016, the Company renewed the loan facility at an interest rate of 29.25% per annum, calculated and paid monthly commencing on October 7, 2016 and repayable in one installment on December 5, 2016. On December 5, 2016, the Company renewed the loan facility at an interest rate of 25.5% per annum, calculated and paid monthly commencing on December 5, 2016 and repayable in one installment on March 5, 2017.

As at December 31, 2016, the balance owing under this loan facility was ARS 7,000,000 ($444,978).

On March 6, 2017, the Company renewed the loan facility at an interest rate of 25% per annum, calculated and paid monthly commencing on March 6, 2017 and repayable in one installment on June 6, 2017. See Note 23(c).

(e) On October 28, 2016, the Company obtained an ARS 14,908,000 ($1million) loan facility with Trend Capital S.A. at an interest discount rate of 38.5% per annum. The loan was unsecured and repaid in one installment on November 30, 2016. On November 25, 2016, the Company renewed the loan under the same terms and the loan was repaid in one installment on December 28, 2016. The Company paid ARS 564,831 ($36,334) of fees in connection with the loan facility.

(f) On December 26, 2016, the Company obtained a $900,000 loan facility with Banco Industrial. The loan is denominated in USD, unsecured, bears interest at 9.5%, calculated and paid monthly commencing on January 26, 2017 and is repayable in one installment on December 26, 2017.

## 11. DECOMMISSIONING PROVISION:

The Company's decommissioning provision results from net ownership interests in petroleum and natural gas assets including well sites, gathering systems and processing facilities. At December 31, 2016 the estimated total undiscounted inflation-adjusted amount of cash flows required to settle the Company's obligations were approximately $4.8 million (2015 – $3.9 million). These costs are expected to be incurred over the next 10 years. The decommissioning obligations have been estimated using existing technology at current prices and discounted using discount rates that reflect current market assessments of the time value of money and the risks specific to each liability. An average risk-free interest rate of 2% (2015 – 2%) and an inflation rate of 2% (2015 – 0.7%) was used to calculate the fair value of the decommissioning provision in Argentina.

**(United States dollars)**

A reconciliation of the decommissioning provision is provided below:

| | 2016 | 2015 |
|---|---|---|
| Balance, beginning of year | $ 3,148,251 | $ 2,109,424 |
| Additions | 19,463 | 190,201 |
| Accretion | 59,964 | 46,783 |
| Change in estimates | 772,672 | 801,843 |
| Balance, end of year | 4,000,350 | 3,148,251 |
| Current portion of decommissioning provision | (182,195) | – |
| Long-term portion of decommissioning provision | $ 3,818,155 | $ 3,148,251 |

## 12. SHARE CAPITAL:

(a) Authorized

Unlimited number of common shares without par value
Unlimited number of Class “A” preferred shares at CAD 1 each par value

(b) Issued and outstanding

| | Number of common shares | Amount |
|---|---|---|
| Balance, December 31, 2014 | 130,480,926 | $ 107,575,856 |
| Strategic Financing | 34,034,296 | 8,508,574 |
| Share issue costs | – | (81,075) |
| Balance, December 31, 2015 and 2016 | 164,515,222 | $ 116,003,355 |

In March 2015, the Company received $2,677,660 of proceeds upon the issuance of 10,710,640 common shares to two investors (the “Strategic Investors”) at an issue price of $0.25 (CAD $0.32) per share. The proceeds were received through the payment of (i) ARS 7.0 million based on the USD to ARS exchange rate of Banco de la Nación Argentina at the close of business on February 26, 2015, being $1.00 = ARS 8.721, and (ii) ARS 16.48 million based on the USD to ARS exchange rate of Banco de la Nación Argentina at the close of business on March 18, 2015, being $1.00 = ARS 8.791.

In April 2015, the Company received $5,830,914 of proceeds upon the issuance of 23,323,656 common shares to the Strategic Investors at an issue price of $0.25 (CAD $0.32) per share for gross proceeds of $5,830,914. The proceeds were ARS 51.6 million based on the USD to ARS exchange rate of Banco de la Nación Argentina at the close of business on April 9, 2015, being $1.00 = ARS 8.845.

Share issue costs of $81,075 were incurred in 2015 as part of the financing.

## 13. SHARE-BASED PAYMENTS:

The Company’s stock option plan provides for the granting of options to directors, officers, employees and consultants. Under the terms of the option plan, options issued will not exceed 10% of the issued and outstanding shares from time to time. The option price under each option is not less than the market price on the grant date. One third of the options granted vest immediately and the remainder generally vest in equal tranches on the first and second year anniversaries of the date of grant. The expiry date for each option is set by the Board of Directors at the time of issue and cannot be more than five years after the grant date.

**(United States dollars)**

Stock option activity for the years ended December 31, 2016 and 2015 is summarized as follows:

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Number of Options | Weighted Average Exercise Price (CAD) | Number of Options | Weighted Average Exercise Price (CAD) |
| Balance, beginning of year | 4,565,000 | $ 0.77 | 8,160,000 | $ 0.83 |
| Expired | (920,000) | 1.42 | (1,210,000) | (1.03) |
| Forfeited | – | – | (2,385,000) | (0.84) |
| Balance, end of year | 3,645,000 | $ 0.61 | 4,565,000 | $ 0.77 |
| Exercisable, end of year | 3,645,000 | $ 0.61 | 4,276,667 | $ 0.76 |

Stock options outstanding and exercisable at December 31, 2016 are as follows:

| Expiry date | Weighted Average Exercise Price (CAD) | Outstanding | Exercisable |
|---|---|---|---|
| February 7, 2017 | $ 0.65 | 1,087,500 | 1,087,500 |
| May 1, 2017 | 0.78 | 465,000 | 465,000 |
| May 31, 2017 | 0.78 | 150,000 | 150,000 |
| June 15, 2017 | 0.58 | 150,000 | 150,000 |
| August 1, 2017 | 0.40 | 75,000 | 75,000 |
| January 31, 2018 | 0.37 | 1,040,000 | 1,040,000 |
| May 1, 2018 | 0.26 | 100,000 | 100,000 |
| May 9, 2019 | 0.87 | 577,500 | 577,500 |
| | $ 0.61 | 3,645,000 | 3,645,000 |

During the years ended December 31, 2016 and 2015, the Company recognized the following share-based payments:

| | 2016 | 2015 |
|---|---|---|
| Expensed | $ 30,226 | $ 125,442 |
| Capitalized as E&E assets (Note 6) | 1,379 | – |
| Capitalized as D&P assets (Note 7) | 748 | 4,820 |
| | $ 32,353 | $ 130,262 |

As at December 31, 2016, the remaining unvested balance of share-based payments was $nil.

## 14. PER SHARE AMOUNTS:

| | 2016 | 2015 |
|---|---|---|
| Net loss | $ (9,742,651) | $ (15,373,360) |
| Opening number of shares | 164,515,222 | 130,480,926 |
| Effect of shares issued (Note 12(b)) | – | 25,313,239 |
| Basic weighted average number of shares | 164,515,222 | 155,794,165 |
| Net loss per share | $ (0.06) | $ (0.10) |

For the years ended December 31, 2016 and 2015, all stock options were excluded from the diluted per share amounts as their effect was anti-dilutive.

**(United States dollars)**

## 15. NET FINANCE EXPENSE:

| | | 2016 | | 2015 |
|---|---|---|---|---|
| Interest income | $ | 42,667 | $ | 98,305 |
| Fair value adjustment on short-term bonds (Note 5) | | (3,471) | | 20,409 |
| Financing fees and bank charges | | (324,499) | | (633,886) |
| Interest on bank debt (Note 10) | | (561,070) | | (582,260) |
| Accretion of decommissioning provision (Note 11) | | (59,964) | | (46,783) |
| | $ | (906,337) | $ | (1,144,215) |

## 16. OTHER INCOME (EXPENSES):

| | | 2016 | | 2015 |
|---|---|---|---|---|
| Petróleo Plus Program (a) | $ | – | $ | 287,263 |
| Oil Incentive Program (b) | | – | | 70,451 |
| Export tax recovery (c) | | – | | 64,313 |
| Remediation expenses (d) | | – | | (343,671) |
| Special meeting expenses (e) | | – | | (739,988) |
| Rights offering expenses (f) | | (109,529) | | – |
| Retirement allowances (g) | | (381,298) | | (576,960) |
| Office lease early termination (h) | | (376,380) | | – |
| Recovery (impairment) of receivable (Note 21(b)) | | 70,031 | | (72,835) |
| | $ | (797,176) | $ | (1,311,427) |

(a) The Government of Argentina implemented the Petróleo Plus Program in 2008 to reward producers who materially increase oil reserves and production through drilling and development by issuing export tax credits ("Petróleo Plus Credits") that can be used to offset taxes on oil sold off shore at market price. Petróleo Plus Credits were transferrable and could be sold to other domestic oil exporters. The Company recognized income from the sale of Petróleo Plus Credits when proceeds are received. The Petróleo Plus Program was cancelled in late 2014.

As described in Note 5, in July 2015, the Government of Argentina issued a decree under which it began offering bonds to qualifying companies with outstanding certificates under the cancelled Petróleo Plus Program. The Company made a submission for approximately $2.2 million of bonds with respect to its outstanding Petróleo Plus certificates and, in September 2015, the Company recognized $287,263 of proceeds for bonds received for the same amount of Petróleo Plus certificates.

On November 29, 2016, the Government of Argentina issued a new decree under which it offered bonds to companies with outstanding certificates under the cancelled Petróleo Plus Program that were not compensated under the previous decree. On December 2, 2016, the Company made a submission to receive $1.6 million of Bonar 2020 8% coupon rate ("BONAR 2020") bonds, denominated and settled in USD and maturing in October 2020, for the remainder of the Company's outstanding Petróleo Plus certificates.

There is no certainty that the Company will receive the BONAR 2020 bonds. Petróleo Plus income will be recognized if and when government-issued bonds are received for the outstanding Petróleo Plus certificates.

(b) In February 2015, the Government of Argentina announced a new oil incentive program (the "Oil Incentive Program") under Resolution 14/2015 which replaces the Petróleo Plus Program. Under the Oil Incentive Program, companies that increase or maintain production during the 2015 calendar year at 95% of fourth quarter 2014 volumes are eligible for a $3.00 per bbl bonus payment on a formula-derived quantity of production. The Oil Incentive Program was in effect from January 1, 2015 to December 31, 2015. The Company recognizes Oil Incentive Program income when proceeds are received.

During 2015, the Company collected $70,451 of Oil Incentive bonus payments in respect of volumes produced in the first and second quarters of 2015.

**(United States dollars)**

In January 2017, the Company collected ARS 884,603 ($55,461) of Oil Incentive bonus payments in respect of volumes produced in the third and fourth quarters of 2015. See Note 23(b).

(c) In November 2006, the TDF UTE filed a lawsuit against the Ministry of Economy and Production claiming certain export taxes were unconstitutional and for such export taxes to be reimbursed. In June 2014, after numerous appeals at various levels of court by both sides, the Supreme Court of Justice of the Nation ruled in favor of the UTE for the reimbursement of export duties plus accrued interest. The Company recognizes income for its share of the export tax recovery when proceeds are received.

During 2015, the Company collected $64,313 of export tax recovery proceeds.

(d) During 2015, the Company recognized $343,671 of remediation expenses related to the Company's working interest share of the estimated cost to clean up pre-existing soil contamination, clean up a former flare pit and repair a tank retaining wall for deficiencies identified at two gas plant locations during an environmental assessment performed by Argentine provincial authorities.

(e) During 2015, the Company incurred $739,988 of expenses in response to actions by a dissident shareholder, which resulted in the preparation of various documents in advance of the special meeting of shareholders held on February 24, 2015.

(f) During 2016, the Company expensed $109,529 of costs in respect of a rights offering for which the minimum condition was not met.

(g) During 2016, an officer of the Company retired, and in connection with same, was entitled to a retiring allowance pursuant to the terms of the related employment agreements in the aggregate amount of $381,298 (2015 – $576,960 in relation to the retirement of two officers and a senior manager of the Company).

(h) During 2016, the Company recognized $376,380 of lease termination expenses in connection with the surrender of the Canadian office lease comprised of a $172,257 lease termination fee, $17,455 for the forfeiture of the lease security deposit and $186,668 for the write-off of the carrying amount of leasehold improvements and office furniture at the time of the lease surrender.

## 17. TAXES:

The reconciliation of the Company's tax provision computed at statutory rates to the reported tax provision (reduction) is as follows:

| | 2016 | 2015 |
|---|---|---|
| Canadian statutory rate | 27% | 26% |
| Current tax reduction at statutory rates | $ (2,148,836) | $ (3,997,074) |
| Share-based payments | 8,161 | 32,615 |
| Non-taxable items and other | 1,225,084 | (270,755) |
| Effect of tax rate differences | (144,151) | (1,631,341) |
| Effect of tax return filings | (169,496) | (1,267,291) |
| Foreign exchange | 2,105,790 | 8,778,773 |
| Change in unrecognized deferred tax assets | 907,448 | (1,644,927) |
| Deferred tax provision | $ 1,784,000 | $ – |

The statutory tax rate for the year ended December 31, 2016 increased from 26% to 27% (2015 – 25% to 26%) due to a 2% increase in the Canadian provincial tax rate on July 1, 2015.

**(United States dollars)**

Recognized deferred tax assets (liabilities) are attributable to the following:

| | | 2016 | | 2015 |
|---|---|---|---|---|
| Property and equipment and E&E assets | $ | (4,481,063) | $ | (5,820,348) |
| Non-capital loss carry forwards | | 1,014,809 | | 3,724,196 |
| Decommissioning obligation | | 1,400,123 | | 1,101,888 |
| Foreign exchange and other | | 282,131 | | 994,264 |
| Deferred tax liability | $ | (1,784,000) | $ | – |

Unrecognized deferred tax assets

Deferred tax assets have not been recognized for the following deductible temporary differences as it is not probable that future taxable profit will be available against which the Company can utilize the benefits:

| | | 2016 | | 2015 |
|---|---|---|---|---|
| Property and equipment and E&E assets | $ | 4,595,981 | $ | 4,328,130 |
| Non-capital loss carry forwards | | 17,694,033 | | 14,423,667 |
| Share issue costs | | 128,819 | | 297,789 |
| Foreign exchange and other | | 4,928,104 | | 4,900,802 |
| | $ | 27,346,937 | $ | 23,950,388 |

As at December 31, 2016, the Company has approximately $17.7 million and $3.0 million (2015 – $14.4 million and $10.6 million) of non-capital losses in Canada and Argentina, respectively, available to reduce taxable income. The Canadian non-capital losses expire at various times between 2027 and 2037. Argentina non-capital losses have a five-year life and expire between 2017 and 2022.

The Company has temporary differences associated with its investments in its foreign subsidiaries. At December 31, 2016 and 2015, the Company has no deferred tax liabilities in respect of these temporary differences.

## 18. SUPPLEMENTAL CASH FLOW INFORMATION:

(a) Change in non-cash working capital items for the years ended December 31, 2016 and 2015 are as follows:

| | | 2016 | | 2015 |
|---|---|---|---|---|
| Trade and other receivables | $ | (715,487) | $ | 1,520,771 |
| Inventory | | 332,769 | | (313,301) |
| Prepaid expenses | | (47,691) | | 194,933 |
| Trade and other payables | | (1,154,731) | | (1,552,040) |
| Effect of change in exchange rates | | (5,187) | | 93,445 |
| | $ | (1,590,327) | $ | (56,192) |
| Attributable to: | | | | |
| Operating activities | $ | (713,174) | $ | 795,327 |
| Investing activities | | (877,153) | | (851,519) |
| | $ | (1,590,327) | $ | (56,192) |

**(United States dollars)**

(b) The breakdown of the Company's cash and cash equivalents is as follows:

| | | 2016 | | 2015 |
|---|---|---|---|---|
| Cash in bank | $ | 521,185 | $ | 709,244 |
| Short-term investments | | – | | 344,603 |
| | $ | 521,185 | $ | 1,053,847 |

(c) During 2016, the Company paid $561,070 (2015 – $582,260) of interest on bank debt (Note 10).

## 19. PERSONNEL EXPENSES:

(a) Salaries and benefits

The Company's consolidated statement of loss and comprehensive loss is prepared primarily by nature of expense, with the exception of $1,599,214 of salaries and benefits for employees and executive management which are included in general and administrative expenses for the year ended December 31, 2016 (2015 – $2,283,741). In addition, E&E assets and property and equipment include $187,959 and $154,477 (2015 – $111,847 and $290,419), respectively, of capitalized salaries and benefits directly related to the development of E&E assets (Note 6) and D&P assets (Note 7).

(b) Key management compensation

The Company considers its key management personnel to consist of its officers and directors. The Company's directors and officers participate in the Company's stock option plan. As at December 31, 2016, key management personnel included 10 individuals (2015 – 10 individuals) and the related compensation recognized in the consolidated statement of loss and comprehensive loss comprised the following:

| | | 2016 | | 2015 |
|---|---|---|---|---|
| Salaries and benefits | $ | 679,847 | $ | 1,061,772 |
| Retiring allowance | | 381,298 | | 476,465 |
| Director fees | | 123,094 | | 150,810 |
| Share-based payments | | 24,778 | | 102,011 |
| | $ | 1,209,017 | $ | 1,791,058 |

## 20. RELATED PARTY TRANSACTION:

During 2016, the Tierra del Fuego UTE (of which the Company is a member) sold a portion of natural gas production to Energía y Soluciones SA, a company controlled by Gabriel Obrador, who is a director of the Company and the majority shareholder of GORC S.A., a shareholder of the Company, for which the Company recognized $412,719 (ARS 6,206,844) of oil and gas revenue for its working interest share. Included in trade and other receivables at December 31, 2016 is $96,419 (ARS 1,516,737) in respect of this revenue.

Transactions with related parties are conducted and recorded at the exchange amount.

## 21. FINANCIAL RISK MANAGEMENT AND CAPITAL MANAGEMENT:

The Company is exposed to various risks that arise from its business environment and the financial instruments it holds. The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework, policies and procedures. The following outlines the Company's risk exposures and explains how these risks and its capital structure are managed.

(a) Capital management

The Company's objective is to maintain a strong capital position in order to execute on its exploration and development plans and maximize shareholder value.

**(United States dollars)**

The Company currently defines its capital as shareholders' equity, working capital and bank debt. Changes to the relative weighting of the capital structure are driven by our business plans, changes in economic conditions and risks inherent in the oil and gas industry. In order to maintain or adjust the capital structure, the Company may consider any or all of the following activities, depending on existing economic conditions and access to external capital sources:

- Issue new shares through a public offering or private placement;
- Utilize its working capital;
- Farm-out of existing exploration opportunities; or
- Access other forms of debt.

Antrim Argentina is subject to financial covenants on its bank debt (Note 10) and the Company has provided deposits totaling $1.3 million in respect of security against $1.5 million of bank debt which must remain in place until the related loans are repaid in full between June 6, 2017 and October 23, 2018.

The Company periodically reviews its capital structure in relation to its exploration and development budgets. The Company's capital management is currently focused on completion of existing exploration commitments and providing for the Company's share of any development programs.

(b) Credit risk

The Company is exposed to credit risk in relation to its cash and cash equivalents, trade and other receivables, interest-bearing bonds included in other non-current assets and the deposit.

Cash and cash equivalents are held with highly rated Canadian and international banks. Therefore, the Company does not believe these financial instruments are subject to material credit risk.

The Company's trade and other receivables are exposed to the risk of financial loss if the counterparty fails to meet its contractual obligations. The Company's trade and other receivables include amounts due from the sale of crude oil and natural gas. The majority of the Company's oil production is sold by the Company to the Argentina subsidiary of a major international oil and natural gas company; the majority of the Company's natural gas production is sold by the Company to several Argentine companies.

The Company's trade and other receivables consist of:

| | 2016 | 2015 |
|---|---|---|
| Due from Argentine companies | $ 2,627,711 | $ 1,859,803 |
| Other receivables | 56,150 | 108,571 |
| Impairment | (249,804) | (319,835) |
| Total trade and other receivables | $ 2,434,057 | $ 1,648,539 |

Impairment:

During 2015, the Company evaluated the collectability of $319,835 from an Argentine operator and recognized $72,835 of impairment due to collectability concerns. During 2016, the Company recovered $70,031 of the impaired receivable (Note 16).

The Company's trade and other receivables are aged as follows:

| | 2016 | 2015 |
|---|---|---|
| Not past due (less than 90 days) | $ 2,385,514 | $ 1,575,505 |
| Past due (more than 90 days) | 48,543 | 73,034 |
| Total trade and other receivables | $ 2,434,057 | $ 1,648,539 |

Interest-bearing bonds (Note 8) are due from a national trust created by the Argentine government for which quarterly repayment commenced on schedule in January 2011. The Company does not believe these bonds are subject to material credit risk.

Long-term receivables (Note 8) primarily relate to Minimum Presumptive Income Tax which will be applied against future taxable income of Antrim Argentina and therefore the Company does not believe these receivables are subject to material credit risk.

(c) Liquidity risk

Liquidity risk is the risk that the Company will not meet its financial obligations as they fall due. The Company's approach to managing liquidity risk is to ensure, as far as reasonable, that it will have sufficient liquidity to meet its liabilities when due, without incurring unacceptable losses.

As of December 31, 2016 the Company has working capital of $194,679 which includes $1,948,878 of financial liabilities with a contractual maturity of less than one year. The Company also has $427,761 of long-term financial liabilities with contractual maturities between July 17, 2018 and October 23, 2018.

The Company prepares operating and capital expenditure budgets which are regularly monitored and updated as considered necessary. In addition, the Company utilizes authorizations for expenditures to manage capital expenditures.

The Company may need to seek a combination of debt, equity and/or asset divestitures to meet its operational requirements.

(d) Market risk

Changes in commodity prices, interest rates and foreign currency exchange rates can expose the Company to fluctuations in its net earnings and in the fair value of its financial assets and liabilities.

(i) Commodity price risk

Price fluctuations for both crude oil and natural gas are influenced by world supply and local demand factors. The Company has no influence over the pricing of oil and natural gas and has not attempted to mitigate commodity price risk through the use of financial derivatives. Currently all of the Company's oil and gas revenue is from Argentina.

(ii) Interest rate risk

The Company is exposed to interest rate fluctuations on its investments of excess cash in short-term money market investments held with international banks. Assuming all other variables remain constant, a 1% change in the interest rate applicable to the Company's cash and cash equivalents would result in a nominal change to net loss for the year ended December 31, 2016 (2015 – $3,400). The Company's bank debt is at a fixed rate of interest.

(iii) Foreign currency exchange rate risk

A substantial portion of the Company's exploration and development activities are conducted in foreign jurisdictions and a portion of the Company's cash and cash equivalents are denominated in CAD and ARS. The Company has not entered into foreign exchange rate contracts to mitigate this risk.

The following tables provide information on the foreign currency denominated financial instruments held by the Company:

| As at December 31, 2016 | Balance denominated in | | Total USD equivalents |
|---|---|---|---|
| | CAD | ARS | |
| Cash and cash equivalents | $ 27,053 | $ 7,557,193 | $ 500,612 |
| Trade and other receivables | $ 18,314 | $ 14,065,412 | $ 907,756 |
| Interest-bearing bonds | $ – | $ 450,074 | $ 28,609 |
| Trade and other payables | $ (460,795) | $ (24,596,982) | $ (1,906,789) |
| Bank debt | $ – | $ (23,229,167) | $ (1,476,639) |

| As at December 31, 2015 | | Balance denominated in CAD | | Balance denominated in ARS | | Total USD equivalents |
|---|---|---|---|---|---|---|
| Cash and cash equivalents | $ | 123,869 | $ | 8,484,807 | $ | 744,824 |
| Trade and other receivables | $ | 11,634 | $ | 4,873,506 | $ | 384,814 |
| Interest-bearing bonds | $ | – | $ | 1,580,967 | $ | 122,106 |
| Trade and other payables | $ | (267,468) | $ | (33,116,162) | $ | (2,750,992) |
| Bank debt | $ | – | $ | (31,283,329) | $ | (2,416,186) |

(iv) Currency devaluation

Currency devaluation in Argentina impacts the cost of ARS denominated items which are translated to the USD functional currency of the Argentine subsidiaries. A portion of TDF operating costs and general and administrative expenses incurred in Argentina are denominated in ARS. During 2016, the devaluation of ARS resulted in lower TDF operating costs and general and administrative expenses incurred in Argentina by approximately 9% (2015 – 17%).

During 2016, the devaluation of ARS since the previous year end date resulted in a reduction in the USD equivalent of ARS denominated foreign currency denominated financial instruments, excluding bank debt, by approximately $141,000 (2015 – $400,000).

During 2016, the devaluation of ARS since the previous year end date resulted in a reduction in the USD equivalent of ARS denominated bank debt by $449,384 (2015 – $1,256,828) (Note 10).

(v) Sensitivity analysis

The following table presents an estimate of the impact on net loss for the market risk factors discussed above and is calculated based on the noted change in exchange rates applied to balances as at December 31, 2016 and 2015:

| Market risk | Change in exchange rates | | 2016 | | 2015 |
|---|---|---|---|---|---|
| Foreign exchange - effect of strengthening USD: | | | | | |
| CAD denominated financial assets and liabilities | 5% | $ | 15,470 | $ | 4,800 |
| ARS denominated financial assets and liabilities | 5% | $ | 81,900 | $ | 191,000 |

## 22. COMMITMENTS:

(a) Leased premises

- The Company has expected future payments for its existing Buenos Aires office rental in the amount of $13,230 per month until March 31, 2017.
- The Company has expected future payments for a new Buenos Aires office rental in the amount of ARS $36,000 ($2,290) per month from February 1, 2017 to March 31, 2020. The monthly rental amount will increase in January 2018 and January 2019 based on Argentina's consumer price index. The Company has the option to cancel the rental agreement at any time for a penalty of 1.5 months of rent if cancellation occurs within the first six months of the rental term and for one month of rent if cancellation occurs thereafter.
- The Company is committed to future payments for an accommodation rental in Buenos Aires in the amount of ARS 24,900 ($1,584) per month from March 1, 2017 to August 31, 2017, ARS 28,635 ($1,821) per month from September 1, 2017 to February 28, 2018, ARS 32,930 ($2,094) per month from March 1, 2018 to August 31, 2018 and ARS 37,870 ($2,409) per month from September 1, 2018 to February 28, 2019.

**(United States dollars)**

(b) TDF Concessions

The Company has a 25.78% working interest in the TDF area of Argentina covering approximately 489,000 acres (126,000 net acres) in the Austral Basin and includes the Las Violetas, La Angostura and Rio Cullen Exploitation Concessions. The Company's share of expenditure commitments with respect to the concessions are as follows:

| Concession | Term of Expenditure Period | Required Expenditure Commitment |
|---|---|---|
| Las Violetas | Over the remaining life of the concession which expires in August 2026 | 18 gross wells with a minimum of $12.1 million of exploration and development investment. As of December 31, 2016, the Company had drilled 13 gross wells and fulfilled the minimum $12.1 million investment. |
| Rio Cullen | Until December 31, 2016 | A minimum of $0.85 million of exploration investment (1) including seismic and drilling, of which $0.31 million has been spent. |
| La Angostura | Until December 31, 2016 | A minimum of $0.98 million of exploration investment (1) including seismic and drilling, of which $0.26 million has been spent. |

(1) The Company requested a two year extension of the December 31, 2016 commitment dates for the drilling of both wells, however the extension was not formally ratified prior to the recess of the Provincial Legislature on December 15, 2016. The Company expects to fulfill the expenditure commitment by March 31, 2017.

(2) After fulfillment of the exploration commitments, the Company has the option to extend the concession by making a cash payment plus an investment commitment for exploration and development work, both of which are on a sliding scale based on proved plus probable reserves range discovered during the initial exploration period of between zero and greater than 18 million BOE. The cash payment is a minimum of $32,500 to a maximum of $1.29 million (net to the Company's interest) and the investment commitment is a minimum of $0.46 million to a maximum of $9.28 million (net to the Company's interest).

(c) Cerro De Los Leones Concession

The Cerro de Los Leones Concession Permit (the "Permit") confers upon its holders the exclusive right to explore for hydrocarbons during three successive exploration periods lasting three, two and one year(s), respectively. Fifty percent of the acreage of the Permit shall be relinquished at the end of each of the first two exploration periods or converted into an exploitation concession or evaluation block.

Effective April 27, 2015, the Company entered into an agreement (the "Agreement") with the Province of Mendoza government to transfer unused work units from the first exploration period ("Period 1") to the second period ("Period 2") and thus extend the concession to May 2017 with an option to extend Period 2, at the Company's request, for one additional year to May 2018.

Pursuant to the Agreement, the Company relinquished certain acreage which had been either sterilized because of environmental considerations or had restricted/prohibited access due to the presence of the European Space Agency's Deep Space 3 antenna on the Permit, or deemed non-prospective by the Company. The relinquishments reduced the acreage of the Permit to the current figure of approximately 100,907 acres and reduced the remaining outstanding Period 1 work units to approximately 780, thereby reducing the remaining Period 1 expenditure commitment to approximately $3.9 million, which was transferred to Period 2. As a result, Period 2 commitments increased from $750,000 to $4.6 million plus one exploration well which must be incurred by May 2017. Should the Company fail to complete its work commitments within the specified time period, it must surrender the concession exploration lands.

**(United States dollars)**

The following provides details of the work commitments required to be completed during each of the exploration periods as recently amended:

| Period | Term of Exploration Period | Required Work Commitment [1] |
|---|---|---|
| Period 1 | Expired | Transferred to Period 2 |
| Period 2 | 2 years commencing May 21, 2015 [3] | A minimum of approximately $4.6 million [2] in expenditures plus a minimum of 1 exploration well at an estimated cost of $2.5 million |
| Period 3 | 1 year commencing upon expiry of Period 2 | 1 exploration well at an estimated cost of $2.5 million |

[1] The required work commitments are expressed as work units in the Permit. Each work unit has an approximate dollar value of $5,000, however, other factors may be considered when determining whether work units have been satisfied.

[2] $750,000 plus $3.9 million transferred from Period 1.

[3] Should the Company fail to complete its work commitments within the specified time period, it must surrender the concession exploration lands and will be obligated to make a payment equal to the value of the Company's outstanding Period 2 work commitments.

(d) Laguna de Piedra Concession

Although the Company has no current plans to develop its 100% interest in the Laguna de Piedra Concession, the Company will have the following work commitments in the event that the necessary environmental work permits are received:

| Term of Exploration Period | Required Work Commitment |
|---|---|
| (1) 2 years commencing the upon the receipt of environmental permits | A minimum of approximately $2.85 million in expenditures including 1 exploration well |
| (2) 1 year commencing upon expiry of preceding term | A minimum of approximately $1.75 million in expenditures including 1 exploration well |

## 23. SUBSEQUENT EVENTS

(a) In January 2017, the Company received $115,000 upon the release of a GIC back to the Company in respect of a loan with HSBC Argentina that was fully repaid in November 2016. See Note 10(a).

(b) In January 2017, the Company collected ARS 884,603 ($55,461) of Oil Incentive bonus payments in respect of volumes produced in the third and fourth quarters of 2015. See Note 16(b).

(c) On March 6, 2017, the Company renewed the loan facility described in Note 10(d) at an interest rate of 25% per annum, calculated and paid monthly commencing on March 6, 2017 and repayable in one installment on June 6, 2017.