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## International Petroleum Corporation

# *Interim Condensed Combined Carve-Out Financial Statements*

*For the three months ended March 31, 2017*

International Petroleum Corp.

# Interim Condensed Combined Carve-Out Financial Statements

**Three months ended March 31, 2017**
**UNAUDITED**

## Contents




**International Petroleum Corp.**
Company No BC1103721

Suite 2000, 885 West Georgia Street
Vancouver, BC V6C 3E8
Canada

# Interim Condensed Combined Carve-Out Statement of Operations

## for the three months ended March 31, 2017
## UNAUDITED

| US$ Thousands | Note | Three months ended<br>**March 31, 2017** | <br>March 31, 2016 |
|---|---|---|---|
| **Revenue** | *2* | **51,932** | 46,222 |
| | | | |
| **Cost of sales** | | | |
| Production costs | | (11,861) | (17,092) |
| Depletion | | (14,504) | (21,366) |
| Depreciation of other assets | | (7,760) | (7,822) |
| Exploration costs | | (137) | (16,641) |
| **Gross profit/(loss)** | *2* | **17,670** | (16,699) |
| | | | |
| General, administration and depreciation expenses | | (926) | (2,044) |
| **Profit/(loss) before net financial items** | | **16,744** | (18,743) |
| | | | |
| Finance income | | 12 | 2 |
| Finance costs | *3* | (10,963) | (30,679) |
| **Net financial items** | | **(10,951)** | (30,677) |
| | | | |
| **Profit/(loss) before tax** | | **5,793** | (49,420) |
| | | | |
| Income tax | *4* | (1,332) | (1,679) |
| **Net result** | | **4,461** | (51,099) |
| | | | |
| Net result attributable to: | | | |
| Shareholders of the Parent Company | | 4,456 | (51,096) |
| Non-controlling interest | | 5 | (3) |
| | | **4,461** | (51,099) |

*See accompanying notes to the interim condensed combined carve-out financial statements.*

# Interim Condensed Combined Carve-Out Statement of Comprehensive Income

## for the three months ended March 31, 2017
## UNAUDITED

| | Three months ended | |
|---|---|---|
| US$ Thousands | **March 31, 2017** | March 31, 2016 |
| **Net result** | 4,461 | (51,099) |
| **Other comprehensive income/(loss):** | – | – |
| **Total comprehensive income/(loss)** | **4,461** | (51,099) |
| Total comprehensive income/(loss) attributable to: | | |
| Shareholders of the Parent Company | 4,456 | (51,096) |
| Non-controlling interest | 5 | (3) |
| | **4,461** | (51,099) |

*See accompanying notes to the interim condensed combined carve-out financial statements.*

# Interim Condensed Combined Carve-Out Balance Sheet

## for the three months ended March 31, 2017
## UNAUDITED

| US$ Thousands | Note | March 31, 2017 | December 31, 2016 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Oil and gas properties | *5* | 310,830 | 320,712 |
| Other tangible fixed assets | *6* | 144,416 | 152,157 |
| Financial assets | | 5 | 5 |
| Deferred tax assets | | 11,444 | 12,049 |
| **Total non-current assets** | | **466,695** | 484,923 |
| | | | |
| **Current assets** | | | |
| Inventories | *7* | 26,324 | 25,067 |
| Trade and other receivables | | 43,402 | 48,226 |
| Current tax | | 67 | 406 |
| Cash and cash equivalents | *8* | 20,082 | 13,410 |
| **Total current assets** | | **89,875** | 87,109 |
| | | | |
| **TOTAL ASSETS** | | **556,570** | 572,032 |
| | | | |
| **EQUITY IN NET ASSETS AND LIABILITIES** | | | |
| Shareholders' equity | | 390,217 | 405,348 |
| Non-controlling interest | | (246) | (252) |
| **Net parent company investment** | | **389,971** | 405,096 |
| | | | |
| **Non-current liabilities** | | | |
| Provisions | *9* | 99,032 | 97,396 |
| Deferred tax liabilities | | 47,610 | 46,616 |
| **Total non-current liabilities** | | **146,642** | 144,012 |
| | | | |
| **Current liabilities** | | | |
| Trade and other payables | | 19,899 | 22,924 |
| Current tax liabilities | | 58 | – |
| **Total current liabilities** | | **19,957** | 22,924 |
| | | | |
| **TOTAL EQUITY IN NET ASSETS AND LIABILITIES** | | **556,570** | 572,032 |

**Approved by the Board of Directors**

Director

Director

*See accompanying notes to the interim condensed combined carve-out financial statements.*

# Interim Condensed Combined Carve-Out Statement of Cash Flow

## for the three months ended March 31, 2017
## UNAUDITED

| US$ Thousands | Three months ended<br>March 31, 2017 | <br>March 31, 2016 |
|---|---|---|
| **Cash flow from operating activities** | | |
| Net result | 4,461 | (51,099) |
| | | |
| Adjustments for non-cash related items: | | |
| Depletion, depreciation and amortisation | 22,505 | 29,576 |
| Exploration costs | 137 | 16,641 |
| Current tax | 396 | (54) |
| Deferred tax | 936 | 1,733 |
| Foreign currency exchange | 10,063 | 29,713 |
| Interest expense | 15 | 1 |
| Other | 724 | 1,687 |
| ***Cash flow generated from operations (before working capital adjustments and income taxes)[1]*** | ***39,237*** | 28,198 |
| | | |
| Changes in working capital | 3,494 | (1,606) |
| Income taxes paid | – | – |
| | | |
| **Net cash flow from operating activities** | **42,731** | 26,592 |
| | | |
| **Cash flow used in investing activities** | | |
| Investment in oil and gas properties | (2,085) | (30,008) |
| Investment in other fixed assets | 61 | 1,870 |
| Decommissioning costs paid | (252) | (277) |
| **Net cash (outflow) from investing activities** | **(2,276)** | (28,415) |
| | | |
| **Cash flow from financing activities** | | |
| Bank interest and charges | (10) | (16) |
| Cash funded from / (to) Lundin Petroleum | (31,767) | (3,552) |
| **Net cash (outflow) from financing activities** | **(31,777)** | (3,568) |
| | | |
| **Change in cash and cash equivalents** | **8,678** | (5,391) |
| Cash and cash equivalents at the beginning of the year | 13,410 | 29,488 |
| Currency exchange difference in cash and cash equivalents | (2,006) | (1,793) |
| **Cash and cash equivalents at the end of the period** | **20,082** | 22,304 |

[1] *Equivalent to Earnings before Interest, Taxes, Depletion /depreciation and Amortization (EBITDA)*

*See accompanying notes to the interim condensed combined carve-out financial statements.*

# Interim Condensed Combined Carve-Out Statement of Net Investment

## for the three months ended March 31, 2017
## UNAUDITED

| US$ Thousands | 2017 |
|---|---|
| **Balance at January 1** | 405,096 |
| Net income attributable to the Shareholders of the Parent Company | 4,456 |
| Parent Company net investment/(proceeds) | (19,586) |
| Non-controlling interest change in equity in net assets | 5 |
| **Balance at March 31** | **389,971** |

# Notes to the Interim Condensed Combined Carve-Out Financial Statements

## for the three months ended March 31, 2017
## UNAUDITED

*Expressed in US$ Thousands unless otherwise stated*

### 1. CORPORATE INFORMATION

### A. Formation of the Corporation

In February 2017, Lundin Petroleum announced its intention to spin-off its assets in Malaysia, France and the Netherlands into a newly formed company called International Petroleum Corporation (IPC) and to distribute the IPC shares, on a pro-rata basis, to Lundin Petroleum shareholders.

IPC acquired these assets through a series of reorganization transactions (the "Reorganization") which are summarized in a non-offering long form prospectus of IPC dated April 17, 2017 (the "Final Prospectus"), filed with the Alberta Securities Commission on the same date. The Reorganization was completed on April 7, 2017.

Prior to opening of trading on Toronto Stock Exchange and Nasdaq First North, Lundin Petroleum distributed all of the Common Shares on a pro rata basis to Lundin Petroleum shareholders of record as of close of business in Stockholm on 20 April 2017 ("Record Date") and such holders of Lundin Petroleum shares received one Common Share for every three shares of Lundin Petroleum held as of the Record Date (the "Spin-Off"). Further information in respect of IPC, the Reorganization and the Spin-Off are available in the Final Prospectus. A copy of the Final Prospectus may be obtained on SEDAR at www.sedar.com under the profile of IPC.

The results of the IPC business are included in the Lundin Petroleum financial statements in the reporting period and are shown as discontinued operations. The distribution and first day of trading of IPC's shares on the TSX and Nasdaq First North occurred on April 24, 2017.

### B. Basis of preparation

The purpose of these combined carve-out financial statements is to present the combined results for the two three month periods ended March 31, 2017 and March 31, 2016 and the financial position as at March 31, 2017 and December 31, 2016 of International Petroleum Corporation.

The information herein presents the carve-out combined financial statements of IPC as if it had operated as a stand-alone entity. The carve-out combined financial statements have been derived from the accounting records of Lundin Petroleum on a carve-out basis and should be read in conjunction with Lundin Petroleum's annual consolidated financial statements and the notes thereto for the year ended December 31, 2016 and Lundin Petroleum's quarterly report for the three months period ended March 31, 2017.

The carve-out combined financial statements have been prepared by management in accordance with International Accounting Standard 34, Interim Financial Reporting as issued by the International Accounting Standards Board.

As the carve-out combined financial statements represent portions of Lundin Petroleum's business, which were not previously organized into a single legal entity, the net assets of IPC have been reflected as a net investment.

The majority of the assets and liabilities in the carve-out combined statements of balance sheet of IPC have been derived from the following legal entities which were historically a part of Lundin Petroleum before the Reorganization:

- Lundin Services Limited, a wholly-owned subsidiary of Lundin Petroleum AB
- Lundin Netherlands BV, an indirect wholly-owned subsidiary of Lundin Petroleum AB
- Lundin Netherlands Facilities BV, an indirect wholly-owned subsidiary of Lundin Petroleum AB
- Lundin Holdings SA, an indirect wholly-owned subsidiary of Lundin Petroleum AB
- Lundin International SA, an indirect 99.87% owned subsidiary of Lundin Petroleum AB
- Lundin Gascogne SNC, an indirect wholly-owned subsidiary of Lundin Petroleum AB
- Lundin Malaysia BV, an indirect wholly-owned subsidiary of Lundin Petroleum AB.

In addition, the activities of Lundin Petroleum BV which relate to the Malaysia, France and the Netherlands oil and gas businesses of Lundin Petroleum and the legacy non-producing interests and non-active entities transferred as part of the Reorganization have been included in these financial statements to the extent separately identifiable.

The historical combined financial information for IPC is presented in United States Dollars (US$) thousands. It has been prepared on a historical cost basis, except for items that are required to be accounted for at fair value. Intercompany transactions and balances have been eliminated.

The preparation of financial statements requires management to make certain estimates and assumptions, either at the balance sheet date or during the year that affect the reported amounts of assets or liabilities as well as expenses. Actual outcomes and results could differ from those estimates and assumptions. In particular due to the fact that the presented historical combined financial information has been extracted from Lundin's financial information the following has to be considered:

- In the past the business did not form a separate legal company. Therefore it is not possible to provide an analysis of share capital and reserves. The Corporation's invested capital in these combined financial statements represents the excess of total assets over total liabilities. Net parent company investment primarily represents the contributions from Lundin Petroleum. The net assets of the Corporation are represented by the cumulative investment of Lundin Petroleum in the business (presented as "net parent company investment").

- All funding of the Corporation has historically come from Lundin Petroleum. Funding costs of Lundin Petroleum are not allocated to the operations and have therefore not been reflected in the combined income statement or combined balance sheet.

Management believes both the assumptions and the allocations underlying the carve-out combined financial statement of IPC are reasonable. However, as a result of the basis of presentation described above, the carve-out combined financial statements may not be indicative of IPC's result of operations, financial position and cash flows in the future or of what IPC's operations, financial position and cash flows would have been if IPC had operated as a stand-alone company.

### C. Going concern

The Corporation's operations are expected to be funded for at least the next twelve months and therefore the financial statements have been prepared on a going concern basis.

### D. Changes in accounting policies and disclosures

During the three months ended March 31, 2017, the Company did not adopt any new standards and interpretations or amendments thereto applicable for financial periods beginning on or after January 1, 2017.

*Expressed in US$ Thousands unless otherwise stated*

## 2. SEGMENT INFORMATION

IPC operates within several geographical areas. Operating segments are reported at country level which is consistent with the internal reporting provided to IPC Management.

The following tables present segment information regarding; revenue, production costs, exploration costs, impairment costs of oil and gas properties and gross profit and certain asset and liability information. In addition segment information is reported in Note 5.

| | Three months ended – 31 March 2017 | | | | |
|---|---|---|---|---|---|
| US$ Thousands | **Malaysia** | **France** | **Netherlands** | **Other** | **Total** |
| Crude oil | 25,654 | 17,236 | 25 | – | **42,915** |
| NGLs | – | – | 102 | – | **102** |
| Gas | – | – | 4,584 | – | **4,584** |
| **Net sales of oil and gas** | 25,654 | 17,236 | 4,711 | – | **47,601** |
| Change in under/over lift position | – | (89) | (216) | – | **(305)** |
| Other operating revenue | 3,718 | 273 | 439 | 206 | **4,636** |
| **Revenue** | 29,372 | 17,420 | 4,934 | 206 | **51,932** |
| Production costs | (849) | (9,389) | (1,623) | – | **(11,861)** |
| Depletion | (9,585) | (3,516) | (1,403) | – | **(14,504)** |
| Depreciation of other assets | (7,760) | – | – | – | **(7,760)** |
| Exploration costs | (117) | (20) | – | – | **(137)** |
| **Gross profit/(loss)** | 11,061 | 4,595 | 1,908 | 206 | **17,670** |

| | Three months ended – 31 March 2016 | | | | |
|---|---|---|---|---|---|
| US$ Thousands | **Malaysia** | **France** | **Netherlands** | **Other** | **Total** |
| Crude oil | 23,790 | 6,651 | 20 | – | 30,461 |
| NGLs | – | – | 122 | – | 122 |
| Gas | – | – | 3,911 | 7,195 | 11,106 |
| **Net sales of oil and gas** | 23,790 | 6,651 | 4,053 | 7,195 | 41,689 |
| Change in under/over lift position | – | 14 | (175) | – | (161) |
| Other operating revenue | 3,655 | 306 | 514 | 219 | 4,694 |
| **Revenue** | 27,445 | 6,971 | 4,392 | 7,414 | 46,222 |
| Production costs | (8,979) | (4,370) | (2,643) | (1,100) | (17,092) |
| Depletion | (14,960) | (3,614) | (2,792) | – | (21,366) |
| Depreciation of other assets | (7,822) | – | – | – | (7,822) |
| Exploration costs | (16,637) | – | – | (4) | (16,641) |
| **Gross profit/(loss)** | (20,953) | (1,013) | (1,043) | 6,310 | (16,699) |

## 3. FINANCE COSTS

| US$ Thousands | Three months ended March 31, 2017 | Three months ended March 31, 2016 |
|---|---|---|
| Foreign exchange loss, net | (10,063) | (29,713) |
| Unwinding of asset retirement obligation discount | (854) | (916) |
| Other financial costs | (46) | (50) |
| | **(10,963)** | (30,679) |

Exchange rate variations result primarily from fluctuations in the value of the USD currency against a pool of currencies which includes, amongst others, EUR. The Company has USD denominated intercompany debt recorded in subsidiaries using a functional currency other than USD.

## 4. INCOME TAX

| US$ Thousands | Three months ended March 31, 2017 | Three months ended March 31, 2016 |
|---|---|---|
| Current tax | (396) | 54 |
| Deferred tax | (936) | (1,733) |
| **Total tax** | **(1,332)** | (1,679) |

The deferred tax amount arises primarily where there is a difference in depletion for tax and accounting purposes.

## 5. OIL AND GAS PROPERTIES

| US$ Thousands | Malaysia | France | Netherlands | Total |
|---|---|---|---|---|
| **Cost** | | | | |
| January 1, 2017 | 423,919 | 313,181 | 128,067 | **865,167** |
| Additions | 839 | 818 | 428 | **2,085** |
| Currency translation difference | (16) | 4,431 | 1,758 | **6,173** |
| **March 31, 2017** | 424,742 | 318,430 | 130,253 | **873,425** |
| | | | | |
| **Accumulated depletion** | | | | |
| January 1 | (293,355) | (142,145) | (108,955) | **(544,455)** |
| Depletion charge for the period | (9,585) | (3,516) | (1,403) | **(14,504)** |
| Expensed exploration costs | (117) | (20) | – | **(137)** |
| Currency translation difference | – | (2,009) | (1,490) | **(3,499)** |
| **March 31, 2017** | (303,057) | (147,690) | (111,848) | **(562,595)** |
| | | | | |
| **Net book value March 31, 2017** | 121,685 | 170,740 | 18,405 | **310,830** |

### 6. OTHER TANGIBLE ASSETS

| US$ Thousands | FPSO | Other | Total |
|---|---|---|---|
| **Cost** | | | |
| January 1, 2017 | 204,770 | 8,998 | **213,768** |
| Additions | (74) | 13 | **(61)** |
| Currency translation difference | 300 | 63 | **363** |
| **March 31, 2017** | 204,996 | 9,074 | **214,070** |
| | | | |
| **Accumulated depreciation** | | | |
| January 1 | (54,758) | (6,853) | **(61,611)** |
| Depreciation charge for the period | (7,760) | (241) | **(8,001)** |
| Currency translation difference | – | (42) | **(42)** |
| **March 31, 2017** | (62,518) | (7,136) | **(69,654)** |
| | | | |
| **Net book value March 31, 2017** | 142,478 | 1,938 | **144,416** |

The FPSO located on the Bertam field, Malaysia, is being depreciated over the committed contract term and the depreciation charge is included in the depreciation of other assets line in the income statement.

For office equipment and other assets, the depreciation charge for the year is based on cost and an estimated useful life of 3 to 5 years. The depreciation charge is included within the general, administration and depreciation expenses in the income statement.

### 7. INVENTORIES

| US$ Thousands | March 31, 2017 | December 31, 2016 |
|---|---|---|
| Hydrocarbon stocks | 14,641 | 13,670 |
| Well supplies and operational spares | 11,683 | 11,397 |
| | **26,324** | 25,067 |

### 8. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include only cash at hand or held in bank accounts.

## 9. PROVISIONS

| US$ Thousands | Asset retirement obligation | Farm in obligation | Other | Total |
|---|---|---|---|---|
| January 1, 2017 | 90,994 | 5,022 | 1,380 | **97,396** |
| Additions | – | – | 10 | **10** |
| Unwinding of asset retirement obligation discount | 854 | – | – | **854** |
| Payments | (252) | – | – | **(252)** |
| Currency translation difference | 935 | 69 | 20 | **1,024** |
| **March 31, 2017** | 92,531 | 5,091 | 1,410 | **99,032** |
| | | | | |
| Non-current | 92,531 | 5,091 | 1,410 | **99,032** |
| Current | – | – | – | **–** |
| **Total** | 92,531 | 5,091 | 1,410 | **99,032** |

## 10. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash, cash equivalents and receivables, which are categorized as loans and receivables, and accounts payable and accrued liabilities, which are categorized as amortized cost. The fair value of these financial instruments other than cash approximates their carrying values due to the short-term nature of these instruments.

## 11. RELATED PARTIES

During the three months ended March 31, 2017 and 2016, the Company has entered into no transactions with related parties.

## 12. SUBSEQUENT EVENTS

The reorganisation of the Lundin Petroleum Group to spin-off its assets in Malaysia, France and the Netherlands into IPC was completed on April 7, 2017. The distribution and first day of trading of IPC's shares on the TSX and Nasdaq First North occurred on April 24, 2017.

Subsequent to the end of the first quarter, on April 20 2017, certain IPC subsidiaries, with IPC as a guarantor, entered into a 2.25-year senior secured USD 100 million reserve-based lending credit facility, which shall be used to fund the share purchase offer announced at listing. This offer will end on May 23, 2017 and it is expected that the credit facility will be drawn to purchase the shares tendered to the offer.

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