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International Petroleum Corporation

Interim Condensed Consolidated Financial Statements

Three and six months ended June 30, 2017

International Petroleum Corp.

Interim Condensed Consolidated Financial Statements

Three and six months ended June 30, 2017

UNAUDITED

The accompanying unaudited interim condensed consolidated financial statements of the Corporation have been prepared by and are the responsibility of the management of the Corporation.

International Petroleum Corp.
Company No BC1103721

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

Interim Condensed Consolidated Financial Statements

Three and six months ended June 30, 2017

UNAUDITED

Contents

Interim Condensed Consolidated Statement of Operations

Three and six months ended June 30, 2017
UNAUDITED

		Three months ended		Six months ended	
US$ Thousands	Note	**June 30, 2017**	June 30, 2016	**June 30, 2017**	June 30, 2016
Revenue	*2*	**48,496**	55,568	**100,428**	101,790
Cost of sales					
Production costs		(16,040)	(13,922)	(27,901)	(31,014)
Depletion		(13,944)	(21,429)	(28,448)	(42,795)
Depreciation of other assets		(7,906)	(7,822)	(15,666)	(15,644)
Exploration and evaluation costs		(409)	3,634	(546)	(13,007)
Impairment costs		164	–	164	–
Gross profit/(loss)	*2*	**10,361**	16,029	**28,031**	(670)
Sale of assets		–	(3,452)	–	(3,452)
General, administration and depreciation expenses		(2,854)	1,092	(3,780)	(952)
Profit/(loss) before financial items		**7,507**	13,669	**24,251**	(5,074)
Finance income		58	–	70	2
Finance costs	*3*	(560)	13,664	(11,523)	(17,015)
Net financial items		**(502)**	13,664	**(11,453)**	(17,013)
Profit/(loss) before tax		**7,005**	27,333	**12,798**	(22,087)
Income tax	*4*	108	(379)	(1,224)	(2,058)
Net result		**7,113**	26,954	**11,574**	(24,145)
Net result attributable to:					
Shareholders of the Parent Company		7,113	26,951	11,569	(24,145)
Non-controlling interest		–	3	5	–
		7,113	26,954	**11,574**	(24,145)
Earnings per share – USD[1]	*12*	**0.07**	0.26	**0.11**	(0.23)
Earnings per share fully diluted – USD[1]	*12*	**0.07**	0.26	**0.11**	(0.23)

[1] *Based on net result attributable to shareholders of the Parent Company.*

See accompanying notes to the interim condensed consolidated financial statements.

Interim Condensed Consolidated Statement of Comprehensive Income

Three and six months ended June 30, 2017
UNAUDITED

	Three months ended		Six months ended	
US$ Thousands	**June 30, 2017**	June 30, 2016	**June 30, 2017**	June 30, 2016
Net result	**7,113**	26,954	**11,574**	(24,145)
Other comprehensive income/(loss):				
Items that may be reclassified to profit or loss:				
Currency translation adjustments[1]	(8,195)	–	(8,195)	–
Total comprehensive income/(loss)	**(1,082)**	26,954	**3,379**	(24,145)
Total comprehensive income/(loss) attributable to:				
Shareholders of the Parent Company	(1,099)	26,951	3,357	(24,145)
Non-controlling interest	17	3	22	–
	(1,082)	26,954	**3,379**	(24,145)

[1] *Currency translation adjustments recognized from Spin-Off date.*

See accompanying notes to the interim condensed consolidated financial statements.

Interim Condensed Consolidated Balance Sheet

As at June 30, 2017
UNAUDITED

US$ Thousands	Note	June 30, 2017	December 31, 2016
ASSETS			
Non-current assets			
Exploration and evaluation assets	*5*	4,519	2,904
Property, plant and equipment, net	*6*	308,592	317,808
Other tangible fixed assets, net	*7*	137,654	152,157
Financial assets		5	5
Deferred tax assets		11,310	12,049
Total non-current assets		**462,080**	484,923
Current assets			
Inventories	*8*	24,561	25,067
Trade and other receivables	*9*	36,009	48,226
Current tax		252	406
Cash and cash equivalents	*10*	14,652	13,410
Total current assets		**75,474**	87,109
TOTAL ASSETS		**537,554**	572,032
EQUITY IN NET ASSETS AND LIABILITIES			
Shareholders' equity		287,525	405,348
Non-controlling interest		(230)	(252)
Net shareholders equity / Net parent company investment		**287,295**	405,096
Non-current liabilities			
Financial liabilities	*14*	48,997	–
Provisions	*15*	97,077	93,581
Deferred tax liabilities		51,041	46,616
Total non-current liabilities		**197,115**	140,197
Current liabilities			
Trade and other payables	*16*	49,009	22,924
Provisions	*15*	4,102	3,815
Current tax liabilities		33	–
Total current liabilities		**53,144**	26,739
TOTAL EQUITY IN NET ASSETS AND LIABILITIES		**537,554**	572,032

Approved by the Board of Directors

(Signed) Ashley Heppenstall
Director

(Signed) Mike Nicholson
Director

See accompanying notes to the interim condensed consolidated financial statements.

Interim Condensed Consolidated Statement of Cash Flow

Three and six months ended June 30, 2017
UNAUDITED

	Three months ended		Six months ended	
US$ Thousands	**June 30, 2017**	June 30, 2016	**June 30, 2017**	June 30, 2016
Cash flow from operating activities				
Net result	7,113	26,954	11,574	(24,145)
Adjustments for non-cash related items:				
Depletion, depreciation and amortization	22,297	29,517	44,802	59,093
Exploration and evaluation costs	409	(3,634)	546	13,007
Impairment costs	(164)	–	(164)	–
Current tax	(188)	(1,101)	208	(1,155)
Deferred tax	80	1,480	1,016	3,213
Capitalized financing fees	136	–	136	–
Foreign currency exchange	(808)	(14,612)	9,255	15,101
Interest expense	244	–	259	1
Result on sale	–	3,451	–	3,451
Other	1,840	938	2,564	2,625
Cash flow generated from operations (before working capital adjustments and income taxes)	***30,959***	42,993	***70,196***	71,191
Changes in working capital	13,203	(14,338)	16,697	(15,960)
Income taxes paid	–	3,555	–	3,555
Net cash flow from operating activities	**44,162**	32,210	**86,893**	58,786
Cash flow used in investing activities				
Investment in oil and gas properties	(3,965)	(7,026)	(6,050)	(37,034)
Investment in other fixed assets	(56)	(24)	5	1,846
Investment in subsidiaries	–	(13)	–	(13)
Decommissioning costs paid	(3,573)	(8,971)	(3,825)	(9,248)
Disposal of fixed assets	–	23,770	–	23,770
Net cash (outflow) from investing activities	**(7,594)**	7,736	**(9,870)**	(20,679)
Cash flow from financing activities				
Net proceeds from borrowings	50,000	–	50,000	–
Paid financing fees	(1,088)	–	(1,088)	–
Bank interest and charges	10	–	–	–
Cash funded from / (to) Lundin Petroleum	373	(42,929)	(31,394)	(46,481)
Share purchase offer	(90,632)	–	(90,632)	–
Net cash (outflow) from financing activities	**(41,337)**	(42,929)	**(73,114)**	(46,481)
Change in cash and cash equivalents	**(4,769)**	(2,983)	**3,909**	(8,374)
Cash and cash equivalents at the beginning of the period	20,082	22,304	13,410	29,488
Currency exchange difference in cash and cash equivalents	(661)	(86)	(2,667)	(1,879)
Cash and cash equivalents at the end of the period	**14,652**	19,235	**14,652**	19,235

See accompanying notes to the interim condensed consolidated financial statements.

Interim Condensed Consolidated Statement of Changes in Equity

As at June 30, 2017
UNAUDITED

US$ Thousands	Parental investment	Share capital	Share premium	Retained earnings	Non-controlling interest	IFRS 2 reserve	CTA	Total
Balance at January 1, 2017	**405,348**	**–**	**–**	**–**	**(252)**	**–**	**–**	**405,096**
Parent Company net investment/(proceeds)	(31,394)	–	–	–	7	–	–	(31,387)
Net result prior to Spin-Off	(3,362)	–	–	–	9	–	–	(3,353)
Balance at Spin-Off date	**370,592**	**–**	**–**	**–**	**(236)**	**–**	**–**	**370,356**
Formation of the Corporation	(410,000)	86,342	323,658	–	–	–	–	–
Valuation adjustments[1]	39,408	–	(39,408)	–	–	–	–	–
Net result after formation of the Corporation	–	–	–	14,931	(4)	–	–	14,927
CTA	–	–	–	–	10	38	(8,243)	(8,195)
Purchase and cancellation of common shares	–	(19,436)	(71,196)	–	–	–	–	(90,632)
Share based payments[2]	–	–	–	–	–	839	–	839
Balance at June 30, 2017	**–**	**66,906**	**213,054**	**14,931**	**(230)**	**877**	**(8,243)**	**287,295**

[1] *Arises due to the use of the predecessor method of accounting*

[2] *See Note 13*

Notes to the Interim Condensed Consolidated Financial Statements

Three and six months ended June 30, 2017
UNAUDITED

Expressed in US$ Thousands unless otherwise stated

1. CORPORATE INFORMATION

A. Formation of the Corporation

In February 2017, Lundin Petroleum AB ("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" or the "Corporation") and to distribute the IPC shares, on a pro-rata basis, to Lundin Petroleum shareholders (the "Spin-Off").

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. 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 interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting and International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The financial statements include the accounts of the Corporation from the Spin-Off date of April 24, 2017 and also incorporate the carve-out combined financial statements of IPC as if it had operated as a stand-alone entity prior to this date – see section 'Basis of Preparation Prior to the Spin-Off date' below.

The 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.

Basis of preparation prior to the Spin-Off date
Prior to the Spin-Off date, financial statements were not prepared for the assets that were spun-off as they were not operated as a separate business by Lundin Petroleum AB and accordingly, the results up until the Spin-Off date have been carved out from the historical consolidated financial statements of Lundin Petroleum AB. 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 and six months period ended June 30, 2017.

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 Parent Company 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 Spin-Off:

- Lundin Services Limited
- IPC Netherlands BV (formerly known as Lundin Netherlands BV)
- IPC Netherlands Facilities BV (formerly known as Lundin Netherlands Facilities BV)
- IPC Petroleum Holdings SA (formerly known as Lundin Holdings SA)
- IPC Petroleum France SA (formerly known as Lundin International SA)
- IPC Petroleum Gascogne SNC (formerly known as Lundin Gascogne SNC)
- IPC Malaysia BV (formerly known as Lundin Malaysia BV)

In addition, the activities of International Petroleum BV (formerly known as Lundin Petroleum BV) which relate to the Malaysia, France and the Netherlands oil and gas businesses acquired by IPC from 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 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 Petroleum's financial information the following has to be considered:

- In the past, the business of IPC 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 prior to the Spin-Off. The net assets of the Corporation are represented by the cumulative investment of Lundin Petroleum prior to the Spin-Off in the business (presented as "net parent company investment").

- Prior to the Spin-Off, all funding of the Corporation came from Lundin Petroleum. These historical 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.

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 six months ended June 30, 2017, the Corporation did not adopt any new standards and interpretations or amendments thereto applicable for financial periods beginning on or after January 1, 2017.

E. Future accounting changes

Accounting standards that have been previously issued by the International Accounting Standards Board ("IASB") but are not yet effective, and have not been applied by the Corporation, include International Financial Reporting Standards ("IFRS") 9 "Financial Instruments", IFRS 15 "Revenue from Contracts with Customers" and IFRS 16 "Leases".

IFRS 9 "Financial Instruments" will replace IAS 39 "Financial Instruments: Recognition and Measurement". IFRS 9 introduces a revised model for classification and measurement, a forward-looking "expected loss" impairment model and a substantially reformed approach to hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The Corporation plans to adopt the standard beginning January 1, 2018. A preliminary assessment has been made and it is anticipated that there will be no material change as a result of adopting this new standard.

IFRS 15 "Revenue from Contracts with Customers" provides guidance on the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. The effective date of the standard is January 1, 2018, with earlier adoption permitted. The Corporation is in the process of analyzing all its contracts with customers with respect to the application of IFRS 15. The Corporation expects to quantify the impact of the adoption of IFRS 15 by the third quarter of 2017 as it plans for adoption on January 1, 2018.

IFRS 16 "Leases" requires lessees to recognize assets and liabilities for most leases. Application of the standard is mandatory for annual reporting periods beginning on or after January 1, 2019, with early adoption permitted. A preliminary assessment has been made and it is anticipated that there will be no material change as a result of adopting this new standard.

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 and evaluation 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 and 6.

	Three months ended – June 30, 2017				
US$ Thousands	**Malaysia**	**France**	**Netherlands**	**Other**	**Total**
Crude oil	32,679	8,508	13	–	**41,200**
NGLs	–	–	96	–	**96**
Gas	–	–	3,183	–	**3,183**
Net sales of oil and gas	**32,679**	**8,508**	**3,292**	**–**	**44,479**
Change in under/over lift position	–	(113)	(177)	–	**(290)**
Other operating revenue	3,975	266	112	(46)	**4,307**
Revenue	**36,654**	**8,661**	**3,227**	**(46)**	**48,496**
Production costs	(9,793)	(4,405)	(1,852)	10	**(16,040)**
Depletion	(8,920)	(3,855)	(1,169)	–	**(13,944)**
Depreciation of other assets	(7,906)	–	–	–	**(7,906)**
Exploration and evaluation costs	175	(4)	–	(580)	**(409)**
Impairment costs	164	–	–	–	**164**
Gross profit/(loss)	**10,374**	**397**	**206**	**(616)**	**10,361**

	Three months ended – June 30, 2016				
US$ Thousands	**Malaysia**	**France**	**Netherlands**	**Other[1]**	**Total**
Crude oil	30,300	14,616	–	–	44,916
NGLs	–	–	118	–	118
Gas	–	–	3,483	2,074	5,557
Net sales of oil and gas	30,300	14,616	3,601	2,074	50,591
Change in under/over lift position	–	211	(81)	–	130
Other operating revenue	3,851	321	366	309	4,847
Revenue	34,151	15,148	3,886	2,383	55,568
Production costs	(2,936)	(7,919)	(2,823)	(244)	(13,922)
Depletion	(15,364)	(3,543)	(2,522)	–	(21,429)
Depreciation of other assets	(7,822)	–	–	–	(7,822)
Exploration and evaluation costs	3,651	(31)	–	14	3,634
Gross profit/(loss)	11,680	3,655	(1,459)	2,153	16,029

[1] *Mainly relates to the Singa field, Indonesia, which was sold in April 2016*

Expressed in US$ Thousands unless otherwise stated

	Six months ended – June 30, 2017				
US$ Thousands	**Malaysia**	**France**	**Netherlands**	**Other**	**Total**
Crude oil	58,333	25,744	38	–	**84,115**
NGLs	–	–	198	–	**198**
Gas	–	–	7,767	–	**7,767**
Net sales of oil and gas	**58,333**	**25,744**	**8,003**	**–**	**92,080**
Change in under/over lift position	–	(202)	(393)	–	**(595)**
Other operating revenue	7,693	539	551	160	**8,943**
Revenue	**66,026**	**26,081**	**8,161**	**160**	**100,428**
Production costs	(10,642)	(13,794)	(3,475)	10	**(27,901)**
Depletion	(18,505)	(7,371)	(2,572)	–	**(28,448)**
Depreciation of other assets	(15,666)	–	–	–	**(15,666)**
Exploration and evaluation costs	58	(24)	–	(580)	**(546)**
Impairment costs	164	–	–	–	**164**
Gross profit/(loss)	**21,435**	**4,892**	**2,114**	**(410)**	**28,031**

	Six months ended – June 30, 2016				
US$ Thousands	**Malaysia**	**France**	**Netherlands**	**Other[1]**	**Total**
Crude oil	54,090	21,267	20	–	75,377
NGLs	–	–	240	–	240
Gas	–	–	7,394	9,269	16,663
Net sales of oil and gas	54,090	21,267	7,654	9,269	92,280
Change in under/over lift position	–	225	(256)	–	(31)
Other operating revenue	7,506	627	880	528	9,541
Revenue	61,596	22,119	8,278	9,797	101,790
Production costs	(11,915)	(12,289)	(5,466)	(1,344)	(31,014)
Depletion	(30,324)	(7,157)	(5,314)	–	(42,795)
Depreciation of other assets	(15,644)	–	–	–	(15,644)
Exploration and evaluation costs	(12,986)	(31)	–	10	(13,007)
Gross profit/(loss)	(9,273)	2,642	(2,502)	8,463	(670)

[1] *Mainly relates to the Singa field, Indonesia, which was sold in April 2016*

Expressed in US$ Thousands unless otherwise stated

3. FINANCE COSTS

	Three months ended		Six months ended	
US$ Thousands	**June 30, 2017**	June 30, 2016	**June 30, 2017**	June 30, 2016
Foreign exchange gain/(loss), net	808	14,612	(9,255)	(15,101)
Interest expense	(244)	–	(259)	–
Unwinding of asset retirement obligation discount	(873)	(932)	(1,727)	(1,848)
Amortization of loan fees	(136)	–	(136)	–
Loan commitment fees	(140)	–	(140)	–
Other financial costs	(25)	(16)	(6)	(66)
	(560)	13,664	**(11,523)**	(17,015)

4. INCOME TAX

	Three months ended		Six months ended	
US$ Thousands	**June 30, 2017**	June 30, 2016	**June 30, 2017**	June 30, 2016
Current tax	188	1,101	(208)	1,155
Deferred tax	(80)	(1,480)	(1,016)	(3,213)
Total tax	**108**	(379)	**(1,224)**	(2,058)

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

5. EXPLORATION AND EVALUATION ASSETS

US$ Thousands	Malaysia	France	Netherlands	Other	Total
Cost					
January 1, 2017	–	2,698	206	–	**2,904**
Additions	55	1,116	109	664	**1,944**
Reclassifications	–	–	(85)	–	**(85)**
Expensed exploration and evaluation costs	58	(24)	–	(580)	**(546)**
Currency translation adjustments	–	282	16	4	**302**
Net book value June 30, 2017	**113**	**4,072**	**246**	**88**	**4,519**

6. PROPERTY, PLANT AND EQUIPMENT, NET

US$ Thousands	Malaysia	France	Netherlands	Total
Cost				
January 1, 2017	423,919	310,481	127,861	**862,261**
Additions	1,771	1,157	1,178	**4,106**
Reclassifications	–	–	85	**85**
Currency translation adjustments	(25)	25,379	10,249	**35,603**
June 30, 2017	**425,665**	**337,017**	**139,373**	**902,055**
Accumulated depletion				
January 1, 2017	(293,355)	(142,143)	(108,955)	**(544,453)**
Depletion charge for the period	(18,505)	(7,371)	(2,572)	**(28,448)**
Currency translation adjustments	–	(11,806)	(8,756)	**(20,562)**
June 30, 2017	**(311,860)**	**(161,320)**	**(120,283)**	**(593,463)**
Net book value June 30, 2017	**113,805**	**175,697**	**19,090**	**308,592**

7. OTHER TANGIBLE FIXED ASSETS, NET

US$ Thousands	FPSO	Other	Total
Cost			
January 1, 2017	204,770	8,998	**213,768**
Additions	(74)	69	**(5)**
Disposals	–	(2,355)	**(2,355)**
Currency translation adjustments	1,741	377	**2,118**
June 30, 2017	**206,437**	**7,089**	**213,526**
Accumulated depreciation			
January 1, 2017	(54,758)	(6,853)	**(61,611)**
Depreciation charge for the period	(15,666)	(688)	**(16,354)**
Disposals	–	2,355	**2,355**
Currency translation adjustments	–	(262)	**(262)**
June 30, 2017	**(70,424)**	**(5,448)**	**(75,872)**
Net book value June 30, 2017	**136,013**	**1,641**	**137,654**

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.

Expressed in US$ Thousands unless otherwise stated

8. INVENTORIES

US$ Thousands	June 30, 2017	December 31, 2016
Hydrocarbon stocks	12,643	13,670
Well supplies and operational spares	11,918	11,397
	24,561	25,067

9. TRADE AND OTHER RECEIVABLES

US$ Thousands	June 30, 2017	December 31, 2016
Trade receivables	19,483	29,299
Underlift	1,006	1,509
Joint operations debtors	10,726	10,430
Prepaid expenses and accrued income	2,108	6,007
Other current assets	2,686	981
	36,009	48,226

10. CASH AND CASH EQUIVALENTS

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

11. OUTSTANDING SHARE DATA

The common shares of IPC started trading on both the Toronto Stock Exchange and the Nasdaq First North in Stockholm on April 24, 2017 with a total of 113,462,148 common shares issued and outstanding. As part of the share purchase offer by a subsidiary of IPC announced following listing, 25,540,302 common shares were tendered (including the 22,805,892 common shares owned by Statoil) and, as part of a subsequent internal reorganization, these shares were subsequently cancelled. The total number of common shares issued and outstanding in IPC is now 87,921,846.

International Petroleum BV, a wholly-owned subsidiary of IPC, holds 117,485,389 class A preferred shares of IPC.

12. EARNINGS PER SHARE

Basic earnings per share is based on net result attributable to the common shareholders and is calculated based upon the weighted-average number of common shares outstanding during the periods presented. For comparative purposes, the Corporation's common shares issued under the Spin-Off and reduced by the share purchase offer, have been assumed to be outstanding as of the beginning of each period prior to the Spin-Off.

Expressed in US$ Thousands unless otherwise stated

13. SHARE-BASED PAYMENTS

The Corporation has the following share-based compensation plans: a stock option plan ("Stock Option Plan") and a one-time transitional performance and restricted share plan, under which awards have been made in performance shares ("IPC transitional PSP) or in restricted shares ("IPC transitional RSP") in connection with the Spin-Off.

The Stock Option Plan was approved by the Board and provides for the grant of stock option awards to employees, consultants and directors. The plan gives the participants a right to buy common shares of IPC at an exercise price equal to the market value at the date of grant. The Board granted stock options under the Stock Option Plan on February 21, 2017 with a three year vesting period and a four year term, whereby the stock options vest equally in three tranches: one third after one year, one third after two years and the final third after three years. The plan is effective from February 21, 2017 and the total outstanding number of stock options at June 30, 2017 is 1,856,600. Each original stock-option was fair valued at the date of grant at C$ 2.01 using an option pricing model.

In connection with the Spin-off, the Corporation agreed to put in place certain one-time transitional equity-based compensation plans for certain officers and employees of the Corporation. The IPC transitional PSP and IPC transitional RSP awards were made effective as of April 24, 2017 and vest subject to certain conditions.

The 2015 IPC transitional PSP awards are effective from April 24, 2017 subject to certain performance conditions being met. The total outstanding number of awards at June 30, 2017 is 421,262 which vest on June 30, 2018. 75 percent of the awards will vest subject to continued employment only and have been fair valued at the grant date at C$ 4.77. The remaining 25 percent will vest subject to continued employment and on a straight-line basis for the share price performance between 100 percent and 125 percent of C$ 4.77 and have been fair valued at the grant date at C$ 2.50 using an option pricing model.

The 2016 IPC transitional PSP awards are effective from April 24, 2017 subject to certain performance conditions being met. The total outstanding number of awards at June 30, 2017 is 733,307 which vest on June 30, 2019. 75 percent of the awards will vest subject to continued employment only and have been fair valued at the grant date at C$ 4.77. The remaining 25 percent will vest subject to continued employment and on a straight-line basis for the share price performance between 100 percent and 125 percent of C$ 4.77 and have been fair valued at the grant date at C$ 2.79 using an option pricing model.

The 2015 IPC transitional RSP awards are effective from April 24, 2017. The total outstanding number of awards at June 30, 2017 is 35,088 which vest on May 31, 2018, subject to continued employment. Each award was fair valued at the grant date at C$ 4.77.

The 2016 IPC transitional RSP awards are effective from April 24, 2017. The total outstanding number of awards at June 30, 2017 is 117,702 which vest on May 31, 2018 and on May 31, 2019, subject to continued employment. Each award was fair valued at the grant date at C$ 4.77.

14. FINANCIAL LIABILITIES

US$ Thousands	**June 30, 2017**	December 31, 2016
Bank loans	50,000	–
Capitalized financing fees	(1,003)	–
	48,997	–

On April 20 2017, certain IPC subsidiaries, with IPC as guarantor, entered into a 2.25-year senior secured USD 100 million reserve-based lending credit facility, which was used to fund the purchase of IPC shares tendered under the share purchase offer announced on April 24, 2017.

The credit facility was initially drawn for USD 80.0 million on May 31, 2017 to partly fund the purchase of IPC shares tendered under the share purchase offer totaling USD 90.6 million. Cash flow generated from operations has been used to reduce the amount drawn under the credit facility to USD 50.0 million as at June 30, 2017.

Expressed in US$ Thousands unless otherwise stated

15. PROVISIONS

US$ Thousands	Asset retirement obligation	Farm in obligation	Other	Total
January 1, 2017	90,994	5,022	1,380	**97,396**
Additions	–	–	56	**56**
Unwinding of asset retirement obligation discount	1,727	–	–	**1,727**
Payments	(3,815)	(10)	–	**(3,825)**
Currency translation adjustments	5,482	227	116	**5,825**
June 30, 2017	**94,388**	**5,239**	**1,552**	**101,179**
Non-current	90,286	5,239	1,552	**97,077**
Current	4,102	–	–	**4,102**
Total	**94,388**	**5,239**	**1,552**	**101,179**

16. TRADE AND OTHER PAYABLES

US$ Thousands	June 30, 2017	December 31, 2016
Trade payables	1,125	2,027
Residual working capital liability to Lundin Petroleum[1]	24,429	–
Joint operations creditors	15,860	14,698
Accrued expenses	4,610	3,682
Other current liabilities	2,985	2,517
	49,009	22,924

[1] See Note 18

17. FINANCIAL ASSETS AND LIABILITIES

Financial assets and liabilities by category

The accounting policies for financial instruments have been applied to the line items below:

June 30, 2017 US$ Thousands	Total	Loans receivables and other receivables at amortized cost	Financial assets at amortized cost	Assets at fair value within OCI	Fair value recognized in profit or loss
Other non-current financial assets	**5**	–	5	–	–
Joint operation debtors	**10,726**	10,726	–	–	–
Other current receivables [1]	**23,427**	22,422	–	–	1,006
Cash and cash equivalents	**14,652**	14,652	–	–	–
Financial assets	**48,810**	**47,800**	**5**	**–**	**1,006**

[1] Prepayments are not included in other current assets, as prepayments are not deemed to be financial instruments

Expressed in US$ Thousands unless otherwise stated

June 30, 2017 US$ Thousands	Total	Other liabilities at amortized cost	Financial liabilities at amortized cost	Fair value recognized in profit or loss
Financial liabilities	**48,997**	–	48,997	–
Joint operation creditors	**15,860**	15,860	–	–
Other current liabilities	**28,539**	28,539	–	–
Financial liabilities	**93,395**	**44,399**	**48,997**	**–**

December 31, 2016 US$ Thousands	Total	Loans receivables and other receivables at amortized cost	Financial assets at amortized cost	Assets at fair value within OCI	Fair value recognized in profit or loss
Other non-current financial assets	5	–	5	–	–
Joint operation debtors	10,430	10,430	–	–	–
Other current receivables [1]	32,195	30,686	–	–	1,509
Cash and cash equivalents	13,410	13,410	–	–	–
Financial assets	56,040	54,526	5	–	1,509

[1] Prepayments are not included in other current assets, as prepayments are not deemed to be financial instruments

December 31, 2016 US$ Thousands	Total	Other liabilities at amortized cost	Financial liabilities at amortized cost	Fair value recognized in profit or loss
Joint operation creditors	14,698	14,698	–	–
Other current liabilities	4,544	4,544	–	–
Financial liabilities	19,242	19,242	–	–

The fair value of loan receivables and other receivables equal the book value.

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

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

Based on this hierarchy, financial instruments measured at fair value can be detailed as follows:

June 30, 2017 US$ Thousands	Level 1	Level 2	Level 3
Other current receivables	–	–	1,006
Financial assets	–	**–**	**1,006**

December 31, 2016 US$ Thousands	Level 1	Level 2	Level 3
Other current receivables	–	–	1,509
Financial assets	–	–	1,509

18. RELATED PARTIES

As at the date of the Spin-Off, the Corporation had a residual liability for working capital owed to Lundin Petroleum of USD 27,429 thousand which has been reduced to USD 24,429 thousand as at June 30, 2017. This amount is reflected as a current liability as it is expected to be paid before June 2018.

In addition, Lundin Petroleum has charged the Corporation USD 136 thousand in respect of office space rental since the Spin-Off date. IPC has charged Lundin Petroleum USD 176 thousand in respect of consultancy fees in 2017. The Corporation has also accrued an amount for shared services provided by Lundin Petroleum since the Spin-Off.

19. SUBSEQUENT EVENTS

No events have occurred after the end of the reporting period that are expected to have a substantial effect on this financial report.

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