JURA ENERGY CORPORATION
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2016 and 2015

JURA ENERGY CORPORATION

MANAGEMENTS' REPORT

The Consolidated Financial Statements of Jura Energy Corporation and related financial information were prepared by, and are the responsibility of Management. The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards issued by International Accounting Standard Board. The Consolidated Financial Statements and related financial information include amounts which are based on estimates and judgments of Management with appropriate consideration to materiality. The Company has developed and maintains systems of controls, policies and procedures in order to provide reasonable assurance that assets are properly safeguarded, and that the financial records and systems are appropriately designed and maintained, and provide relevant, timely and reliable financial information to Management.

PricewaterhouseCoopers LLP are the external auditors appointed by the shareholders, and they have conducted an independent examination of the corporate and accounting records in order to express an Auditors' Opinion on these Consolidated Financial Statements.

The Board of Directors has established an Audit Committee. The Audit Committee reviews with Management and the external auditors any significant financial reporting issues, the Consolidated Financial Statements, and any other matters of relevance to the parties. The Audit Committee meets quarterly to review and approve the interim financial statements prior to their release, as well as annually to review the Company's annual Consolidated Financial Statements, Management's Discussion and Analysis, and the Annual Information Form, and to recommend their approval to the Board of Directors. The external auditors have unrestricted access to the Company, the Audit Committee and the Board of Directors.

"Signed"
Shahid Hameed
Interim Chief Executive Officer

"Signed"
Muhammad Nadeem Farooq
Chief Financial Officer

April 11, 2017

April 11, 2017

Independent Auditor's Report

To the Shareholders of Jura Energy Corporation

We have audited the accompanying consolidated financial statements of Jura Energy Corporation, which comprise the consolidated statements of financial position as at December 31, 2016 and December 31, 2015 and the consolidated statements of comprehensive loss, changes in equity and cash flows for the years then ended, and the related notes, which comprise 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.

Auditor's 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 the auditor's 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, the auditor considers 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 financial position of Jura Energy Corporation as at December 31, 2016 and December 31, 2015 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP
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Emphasis of matter
Without qualifying our opinion, we draw attention to note 2 in the consolidated financial statements which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about Jura Energy Corporation's ability to continue as a going concern.

PricewaterhouseCoopers LLP

Chartered Professional Accountants
Calgary, Alberta

Jura Energy Corporation
Consolidated Statements of Financial Position
As at December 31, 2016 and 2015

	Note	December 31, 2016 US$	December 31, 2015 US$
ASSETS			
Current assets			
Cash and cash equivalents		179,913	1,723,906
Restricted cash	3	1,053,561	-
Accounts and other receivables	4	1,634,647	6,485,608
		2,868,121	**8,209,514**
Non-current assets			
Property, plant and equipment	5	44,917,569	30,691,415
Exploration and evaluation assets	6	5,218,406	12,127,275
Intangible assets	8	14,014	29,298
Long term receivables	9	161,473	161,298
		50,311,462	**43,009,286**
Total assets		**53,179,583**	**51,218,800**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	10	12,032,735	16,073,899
Amounts due to related parties	11	-	13,080,730
Borrowings	12	2,041,926	-
		14,074,661	**29,154,629**
Non-current liabilities			
Amounts due to related parties	11	9,437,368	-
Borrowings	12	12,251,598	3,902,270
Asset retirement obligation	14	3,336,082	2,564,356
		25,025,048	**6,466,626**
Total liabilities		**39,099,709**	**35,621,255**
Shareholders' equity			
Share capital	15	65,203,045	65,203,045
Contributed surplus	15	342,693	339,886
Warrants	15	117,672	117,672
Accumulated deficit		(51,583,536)	(50,063,058)
Total shareholders' equity		**14,079,874**	**15,597,545**
Total equity and liabilities		**53,179,583**	**51,218,800**
Going concern	2 (i)		
Contingencies and commitments	16		

The accompanying notes are an integral part of these consolidated financial statements.

APPROVED ON BEHALF OF THE BOARD OF DIRECTORS

"Signed"
Shahid Hameed
Interim CEO and Director

"Signed"
Stephen C. Smith
Director

Jura Energy Corporation
Consolidated Statements of Comprehensive Loss
For the years ended December 31, 2016 and 2015

	Note	December 31, 2016 US$	December 31, 2015 US$
Net revenue	17	5,461,477	8,626,569
Cost of production	18	(5,340,117)	(6,282,291)
Gross profit		**121,360**	**2,344,278**
General and administrative expenses	19	(6,068,289)	(3,491,446)
Net reversal / (impairment) of property, plant and equipment	5	13,022,162	(14,082,000)
Impairment of exploration and evaluation assets	7	(6,916,212)	-
Exploration and evaluation costs written off	6	(8,406)	(43,465)
Gain on extinguishment of shareholder loan	11	27,835	-
Operating profit / (loss)		**178,450**	**(15,272,633)**
Finance income / (costs)	20	(1,698,928)	(696,121)
Loss before income tax		**(1,520,478)**	**(15,968,754)**
Income tax expense	21	-	-
Loss and comprehensive loss		**(1,520,478)**	**(15,968,754)**
Loss per share - basic and diluted (US$ per share)	22	(0.02)	(0.23)
Going concern	2 (i)		

The accompanying notes are an integral part of these consolidated financial statements.

Jura Energy Corporation
Consolidated Statements of Cash Flows
For the years ended December 31, 2016 and 2015

	Note	December 31, 2016 US$	December 31, 2015 US$
Cash flow from operating activities			
Loss for the year		(1,520,478)	(15,968,754)
Adjustments for:			
Depletion, depreciation and amortization		2,241,072	3,634,337
Net (reversal) / impairment of property, plant and equipment		(13,022,162)	14,082,000
Impairment of exploration and evaluation assets		6,916,212	-
Accrued finance costs		1,977,945	1,225,887
Gain on settlement of shareholder loan		(27,835)	-
Stock based compensation		2,807	16,134
Exploration and evaluation costs written off		8,406	43,465
Net unrealized exchange loss / (gain) on borrowings		389,669	(1,587,367)
Funds flow		(2,034,364)	1,445,702
Changes in working capital			
Decrease / (increase) in accounts and other receivables		4,603,524	(4,410,810)
Increase in accounts payable and accrued liabilities		1,574,893	6,442,090
Increase in restricted cash		(1,053,561)	-
Net cash generated from operating activities		**2,090,492**	**3,476,982**
Cash flow from investing activities			
Property plant and equipment		(7,372,738)	(763,399)
Exploration and evaluation assets		(972,763)	(549,308)
Change in long term receivables		(175)	(12,329)
Net cash used in investing activities		**(8,345,676)**	**(1,325,036)**
Cash flow from financing activities			
Amounts due to related parties - receipts		-	1,315,501
Amounts due to related parties - repayment		(4,634,075)	(1,118,570)
Borrowings – proceeds		10,458,946	-
Borrowings – repayment		(22,447)	-
Finance costs paid		(1,091,233)	(772,447)
Net cash generated / (used in) financing activities		**4,711,191**	**(575,516)**
Net (decrease) / increase in cash and cash equivalents		(1,543,993)	1,576,430
Cash and cash equivalents at beginning of year		1,723,906	147,476
Cash and cash equivalents at end of year		**179,913**	**1,723,906**
Going concern	**2 (i)**		

The accompanying notes are an integral part of these consolidated financial statements.

Jura Energy Corporation
Consolidated Statements of Changes in Equity
For the years ended December 31, 2016 and 2015

	No of shares	Share Capital	Accumulated deficit	Contributed surplus	Warrants	Total
		US$	US$	US$	US$	US$
Balance at January 1, 2015	69,076,328	65,203,045	(34,094,304)	323,752	117,672	31,550,165
Net loss for the year	-	-	(15,968,754)	-	-	(15,968,754)
Stock based compensation during the year	-	-	-	16,134	-	16,134
Balance at December 31, 2015	**69,076,328**	**65,203,045**	**(50,063,058)**	**339,886**	**117,672**	**15,597,545**
Balance at January 1, 2016	69,076,328	65,203,045	(50,063,058)	339,886	117,672	15,597,545
Net loss for the year	-	-	(1,520,478)	-	-	(1,520,478)
Stock based compensation during the year	-	-	-	2,807	-	2,807
Balance at December 31, 2016	**69,076,328**	**65,203,045**	**(51,583,536)**	**342,693**	**117,672**	**14,079,874**

Going concern – note 2 (i)

The accompanying notes are an integral part of these consolidated financial statements.

1. Company and its operations

Jura Energy Corporation ("JEC" or the "Company") is listed on the TSX Venture Exchange ("TSX-V") and trades under the symbol "JEC". The registered office of Jura Energy Corporation is located at Suite 5100, 150 – 6th Avenue SW, Calgary, T2P 3Y7, Alberta, Canada. These consolidated financial statements include financial statements of Jura Energy Corporation ("JEC"), and its wholly owned subsidiaries Spud Energy Pty Limited ("SEPL"), PetExPro Ltd. (formerly Frontier Acquisition Company Limited) ("PEPL"), Frontier Oil and Gas Holdings Limited ("FOGHL") and Frontier Holdings Limited ("FHL").

On December 2, 2016, the name of Frontier Acquisition Company Limited was changed to PetExPro Ltd. FOGHL was incorporated as an investment holding company under the *Companies Act 2001* of Mauritius on December 30, 2016. FOGHL is owned 100% by JEC.

These consolidated financial statements were approved and authorized for issue by the Company's board of directors on April 06, 2017.

The principal activities of the Company are exploration, extraction and production of oil and natural gas. Presently the Company has working interests in the following operated and non-operated exploration licenses / leases in Pakistan:

Exploration licenses / leases	**Working interest**	**Operator**
Operated		
Sara and Suri leases	60.00%	Spud Energy Pty Limited
Non-operated		
Badar lease*	7.89%	Petroleum Exploration (Private) Limited
Zarghun South lease	40.00%	Mari Petroleum Company Limited
Kandra lease*	37.50%	Petroleum Exploration (Private) Limited
Reti, Maru and Maru South leases	10.66%	Oil and Gas Development Company Limited
Ayesha lease	27.50%	Petroleum Exploration (Private) Limited
Kandra exploration license	35.00%	Petroleum Exploration (Private) Limited
Guddu exploration license	13.50%	Oil and Gas Development Company Limited
Zamzama North exploration license	24.00%	Heritage Oil and Gas Limited
Sanjawi exploration license	27.00%	Heritage Oil and Gas Limited
Badin IV South exploration license	27.50%	Petroleum Exploration (Private) Limited
Badin IV North exploration license	27.50%	Petroleum Exploration (Private) Limited

*On August 12, 2016, FHL, Petroleum Exploration (Private) Limited ("PEL") and SEPL entered into a Settlement Agreement (the "Agreement") pursuant to which FHL and SEPL have agreed to transfer their working interest in the Kandra lease and Badar lease to PEL.

On December 28, 2011, SEPL entered into a share purchase agreement with Jahangir Siddiqui & Sons Limited ("JSSL"), the parent company of Energy Exploration Limited ("EEL"), for the purchase of all the issued, subscribed and paid up share capital of EEL against a consideration of US$ 1,000. The closing of the acquisition is subject to satisfaction of the following conditions:

i) Receipt of Deeds of Assignment duly executed on behalf of the President of Pakistan evidencing the assignment of 11% and 12% working interests by Sprint Energy Limited to EEL under the Sanjawi and Zamzama North exploration licenses respectively;
ii) The grant of approval by the State Bank of Pakistan for investment by SEPL in EEL; and
iii) The issuance of the share transfer deed.

These conditions have not been fulfilled as of the date of approval of these consolidated financial statements. Upon closing, EEL will become a wholly owned subsidiary of the SEPL.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

i) Basis of preparation

a) Going concern

Management has prepared these consolidated financial statements in accordance with IFRS applicable to a going concern, which contemplates that assets will be realized and liabilities will be discharged in the normal course of business as they become due. The Company has a working capital deficiency of US$ 11.21 million at December 31, 2016 (December 31, 2015: US$ 20.95 million). The Company has incurred losses in its current and prior fiscal years and has a current accumulated deficit of US$ 51.58 million (December 31, 2015: US$ 50.06 million). For the year ended December 31, 2016 the Company reported positive cash flows from operations of US$ 2.10 million (December 31, 2015: US$ 3.48 million). In addition to its ongoing working capital requirements, the Company also has financial commitments as at December 31, 2016 that amounted to US$ 4.33 million (December 31, 2015: US$ 5.8 million) *(See "Commitments - Note 16.4").* Additional cash resources will be required to exploit the Company's petroleum and natural gas properties.

In addition to the above-mentioned factors, there are a number of additional material uncertainties that raise significant doubt as to the Company's ability to continue as a going concern, and, accordingly, the appropriateness of the use of accounting principles applicable to a going concern. The uncertainties include the need for additional cash resources to fund its existing operations and for the development of its properties, economic dependence on joint venture partners and the current economic and political conditions in Pakistan.

To date, all exploration, development and other operational activities of the Company have been funded by internal cash generation from its producing concessions, equity and debt issuances, funding by a shareholder, and by farm-out through which a third party reimbursed the Company for a portion of its historical costs and will pay a portion of the Company's future capital expenditures to earn a portion of the Company's working interest in its properties.

During 2016, SEPL entered into two Musharaka Agreements with Al Baraka Bank (Pakistan) Limited ("Al Baraka"), pursuant to a syndicated credit facility arrangement (the "Syndicated Credit Facility"), as lead arranger, in the amount of up to PKR 1,060 million (approximately US$ 10.11 million). The Syndicated Credit Facility carries mark-up at the rate of 3 month Karachi Interbank Offered Rate ("KIBOR") plus 2.75%. The principal is repayable in sixteen equal quarterly installments in arrears, commencing fifteen months after the date of disbursement. During the year, the Company has fully drawn down the Syndicated Credit Facility to settle other facilities amounting to US$ 2,905,276 *(See "Amounts due to related parties - Note 11.3")* and a portion of accounts payable and accrued liabilities. As at December 31, 2016, the Company was non-compliant with one of the financial covenants of the Syndicated Credit Facility for which a deferral has been granted by Al Baraka, acting on behalf of the participants up to December 31, 2017. *(See "Borrowings- Note 12.1").*

Subsequent to year end, SEPL entered into a third Musharaka Agreement with Al Baraka under the Syndicated Credit Facility in the amount of PKR 170 million (approximately US$ 1.62 million) *(See "Subsequent Events-Note 27")*. The management is in the advanced stage of closing a further enhancement of the Syndicated Credit Facility, pursuant to which the facility amount will increase from PKR 1,230 million (approximately US$ 11.73 million) to PKR 1,530 million (approximately US$ 14.59 million). The Company's access to sufficient capital will impact its ability to complete its planned exploration and development activities. However, there can be no assurance that the steps management is taking will be successful. The principal shareholder has confirmed its commitment to provide financial support to the Company as and when required for a minimum period of twelve months from the date of approval of these financial statements.

These financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported revenues and expenses and balance sheet classifications that would be necessary if the Company was unable to realize its assets and settle its liabilities as a going concern in the normal course of operations. Such adjustments could be material.

b) Statements of Compliance

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") and IFRS Interpretations Committee ("IFRIC") interpretations applicable to companies reporting under IFRS. The consolidated financial statements comply with IFRS as issued by International Accounting Standards Board ("IASB").

The consolidated financial statements have been prepared under the historical cost convention, as modified by revaluation of financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note IV.

c) Changes in accounting policies and disclosures

a) New standards, amendments and interpretations not yet adopted

The Company has reviewed new and revised standards and interpretations that have been approved by the IASB. The following table outlines the new accounting pronouncements issued by the IASB that are applicable to, or may have a future impact on, the Company. The Company intends to adopt these standards and interpretations, if applicable, when they become effective.

Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers.* It replaces existing revenue recognition guidance and provides a single, principles-based five-step model to be applied to all contracts with customers. Retrospective application of this standard is effective for fiscal years beginning on or after January 1, 2018, with earlier application permitted. The Company is currently assessing the impact of this standard.

Financial Instruments: Recognition and Measurement

In July 2014, IFRS 9 *Financial Instruments* was issued as a complete standard, including the requirements previously issued related to classification and measurement of financial assets and liabilities, and additional amendments to introduce a new expected loss impairment model for financial assets including credit losses. Retrospective application of this standard with certain exemptions is effective for fiscal years beginning on or after January 1, 2018, with earlier application permitted. The company is currently assessing the impact of this standard.

Leases

In January 2016, the IASB issued IFRS 16 *Leases* which replaces the existing leasing standard (IAS 17 *Leases*) and requires the recognition of most leases on the balance sheet. IFRS 16 effectively removes the classification of leases as either finance or operating leases and treats all leases as finance leases for lessees with exemptions for short-term leases where the term is twelve months or less and for leases of low value items. The accounting treatment for lessors remains the same, which provides the choice of classifying a lease as either a finance or operating lease. IFRS 16 is effective January 1, 2019, with earlier application permitted. The company is currently assessing the impact of this standard.

ii) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the board of directors (the "Board").

iii) Foreign currency translation

a) Functional and presentation currency

Items included in the financial statements of each of the Company's entities are measured using the currency in which the sale price is denominated and expenses are incurred (the "functional currency"). The consolidated financial statements are presented in United States Dollars, which is the Company's functional currency.

b) Foreign currency transactions and translations

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of comprehensive income / (loss), except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

iv) Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

<u>Critical accounting estimates and assumptions</u>

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

a) Exploration and evaluation expenditure

The Company's accounting policy for exploration and evaluation expenditure results in certain items of expenditure being capitalized for an area of interest where it is considered likely to be recoverable by future exploitation or sale or where the activities have not reached a stage which permits a reasonable assessment of the existence of reserves. This policy requires management to make certain estimates and assumptions as to future events and circumstances, in particular whether an economically viable extraction operation can be established. Any such estimates and assumptions may change as new information becomes available. If, after having capitalized the expenditure under the policy, a judgment is made that recovery of the expenditure is unlikely, the relevant capitalized amount is written off to the statement of comprehensive income / (loss).

b) Estimated impairment of oil and gas properties

Oil and gas reserves are an important element in impairment testing for oil and gas properties. Estimates of oil and gas reserves are inherently imprecise and are subject to future revision. These reserves are estimated by an independent expert with reference to available reservoir and well information, including production and pressure trends for producing reservoirs and, in some cases, subject to definitional limits, to similar data from other producing reservoirs.

The recoverable amount of a cash generating unit ("CGU") and an individual asset is determined based on the higher of the value-in-use calculations and fair value less costs of disposal. These calculations require the use of estimates and assumptions, including the discount rate. It is reasonably possible that the commodity price assumptions may change, which may impact the estimated life of the field and economically recoverable reserves and may require a material adjustment to the carrying value of oil and gas properties. The Company monitors internal and external indicators of impairment relating to its assets.

c) *Estimated oil and gas reserves used for depletion of oil and gas properties*

Proved and probable reserves, used for recording depletion of oil and gas properties, are estimated by an independent expert with reference to available reservoir and well information. Proved and probable reserves estimates are subject to revision, either upward or downward, based on new information, such as from development drilling and production activities or from changes in economic factors, including product prices, contract terms or development plans. Changes to the estimates of proved and probable reserves, affect the amount of depletion recorded in the financial statements for oil and gas properties related to hydrocarbon production activities.

d) *Asset retirement obligation*

Estimates of the amount of provision for asset retirement obligations are recognized based on current legal and constructive requirements, technology and price levels. Provision is recorded based on the estimates received from the operator, where available, or the information provided by the technical department of the Company based on the best estimates. However, the actual outflows can differ from the estimated cash outflows due to changes in laws, regulations, public expectations, technology, prices and conditions, and can take place many years in the future; the carrying amount of provision is reviewed and adjusted to take account of such changes.

e) *Recognition of deferred tax assets*

The recognition of deferred tax assets is based upon whether it is more likely than not that sufficient and suitable taxable profits will be available in the future against which the reversal of temporary differences can be deducted. To determine the future taxable profits, reference is made to the latest available profit forecasts. Where the temporary differences are related to losses, relevant tax law is considered to determine the availability of the losses to offset against the future taxable profits.

Significant items on which the Company has exercised accounting judgement include recognition of deferred tax assets in respect of tax losses in Pakistan.

f) *Measurement of share-based payments*

Share-based payments recorded pursuant to share-based compensation plans are subject to estimated fair values, forfeiture rates, volatility and the future attainment of performance criteria, if any.

Critical judgements in applying the entity's accounting policies

g) *Determination of cash generating units for impairment testing*

For the purpose of impairment testing, oil and gas properties are aggregated into CGUs, based on separately identifiable and largely independent cash flows. The determination of the Company's CGUs, however, is subject to judgement.

h) *Asset retirement obligation*

Provision is recognized for the future restoration cost of oil and gas wells, production facilities and pipelines at the end of their economic lives. The timing of recognition requires the application of judgment to existing facts and circumstances, which can be subject to change.

i) Fair valuation of embedded derivatives and stock options at grant date

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Company uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the grant date and at each reporting date. The Company has used the Black-Scholes option pricing model for fair valuation of stock options at grant date and embedded derivatives at reporting date.

j) Determination of functional currency

The determination of the functional currency of the Company is critical and requires significant judgment, since recording of transactions and exchange differences arising there from are dependent on the functional currency selected.

v) Consolidation

a) Subsidiaries

Subsidiaries are all entities over which the Company has control. The Company controls an entity when the Company 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. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are deconsolidated from the date that control ceases. SEPL, PEPL, FOGHL and FHL are the material subsidiaries of the Company. In addition to these the Company has a number of inactive wholly-owned subsidiaries.

The Company applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Company. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Company recognizes any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognized amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognized in statement of comprehensive income / (loss).

Any contingent consideration to be transferred by the Company is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform to the Company's accounting policies.

b) *Changes in ownership interests in subsidiaries without change of control*

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

c) *Disposal of subsidiaries*

When the Company ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Company had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

d) Joint arrangements

Investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of the parties to the arrangement. The Company has assessed the nature of its joint arrangements and determined them to be joint operations. The Company has recognized its share of assets, liabilities, income and expenditure jointly held or incurred under the joint operations on the basis of the latest available audited accounts of the joint operations where applicable, or the cost statements received from the operator of the joint arrangement for the intervening period up to the balance sheet date.

vi) Revenue recognition

Revenue from the sale of petroleum products (oil and gas) is recognized when the significant risks and rewards of ownership have been transferred to the buyer. For sales of oil and gas this is usually when legal title passes to the external party which occurs on shipment/transportation of oil/gas to the buyer. Revenue from the sale of petroleum products is recognized based on prices notified by the Government of Pakistan.

vii) Income tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in the statement of comprehensive income / (loss), except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively. The income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled. Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

viii) Stock based compensation

The Company issues options to its directors, officers and employees to acquire common shares. Options are accounted for using the fair value method which estimates the value of the options at the date of grant using the Black-Scholes Option Pricing Model. The fair value thus established is recognized as an expense over the vesting period of the options with a corresponding increase to contributed surplus. When the options are exercised, the proceeds received and the applicable amount in contributed surplus will be credited to share capital.

ix) Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise cash in hand, demand deposits and other short term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

x) Trade receivables

Trade receivables are recognized and carried at original invoice amount, less provision for doubtful debts.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off. A provision for doubtful receivables is established when there is objective evidence that the entity will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of the provision is recognized in the statement of comprehensive income / (loss).

xi) Exploration, evaluation and development assets

a) Exploration and evaluation costs

Exploration and evaluation costs are accumulated in respect of each separate area of interest. Exploration and evaluation costs are carried forward where right of tenure of the area of interest is current and they are expected to be recouped through sale or successful development and exploitation of the area of interest, or, where exploration and evaluation activities in the area of interest have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves. Exploration and evaluation assets are tested for impairment once the decision is made that it is technically feasible and will be transferred to property, plant and equipment or whenever facts and circumstances indicate impairment.

When an area of interest is abandoned, surrendered/relinquished or management decides and the Board approves that it is not determined commercially viable, any accumulated costs in respect of that area are written off in the financial period in which the decision is made.

b) Oil and gas properties

When an oil or gas field has been approved for development and technical feasibility and commercial viability of extracting resources is determined, the accumulated exploration and evaluation costs are transferred to oil and gas properties.

Assets in development

The costs of oil and gas properties in development are separately accounted for and include past exploration and evaluation costs, development drilling and other subsurface expenditure, surface plant and equipment and any associated land and buildings and directly attributable borrowing costs. When commercial operation commences, the accumulated costs are transferred to oil and gas assets in production.

Assets in production

The costs of oil and gas assets in production are separately accounted for and include past exploration and evaluation costs, past development costs and the ongoing costs to develop reserves for production and to expand or replace plant and equipment and any associated land and buildings.

Depletion

Upon the commencement of commercial production in an area of interest, accumulated development costs, inclusive of exploration and evaluation assets are depleted on a unit of production basis over the estimated useful life of the field determined by reference to the proved and probable reserves.

Borrowing cost capitalization

Borrowing costs relating to assets that take a substantial period of time to construct are capitalized as part of the asset. Capitalization of borrowing costs ceases when the asset is in the location and condition necessary for its intended use, and is suspended when construction of an asset is ceased for extended periods.

xii) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment loss, if any. Depreciation is charged on the straight-line basis to write off the depreciable amount of the property, plant and equipment over their estimated useful lives. Depreciation on additions is charged from the month in which the asset is available for use and on disposals up to the preceding month of disposal. The assets' residual values, depreciation method and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

xiii) Depreciation of property, plant and equipment

Depreciation is calculated on a straight-line basis to write off the net cost or revalued amount of each item of property, plant and equipment over its expected useful life to the Company. Estimates of remaining useful lives are made on a regular basis for all assets, with annual reassessments for major items. The depreciation rates applied are as follows:

Computer equipment	33.33%
Furniture and fixtures	20.00%
Office equipment	33.33%
Vehicles	20.00%

xiv) Intangible assets

These are carried at cost less accumulated amortization, and any identified impairment losses. These mainly represent accounting and technical software. Amortization is calculated, using the straight-line method, to allocate the cost of intangible assets over their estimated useful lives, at the rates specified in note 8. Costs associated with maintaining intangible assets are recognized as an expense as and when incurred.

Amortization on additions is charged from the month in which the asset is acquired or capitalized, while no amortization is charged for the month in which the asset is disposed of.

xv) Recoverable amount of non-current assets

The recoverable amount of an asset is the net amount expected to be recovered through the net cash flows arising from its continued use and subsequent disposal.

Where the carrying amount of a non-current asset is greater than its recoverable amount, the asset is written down to its recoverable amount. Where net cash flows are derived from a CGU, the recoverable amount is determined on the basis of the relevant CGU. The decrease in the carrying amount is recognized as an expense in the reporting period in which the recoverable amount write-down occurs.

xvi) Impairment

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. Exploration and evaluation assets are tested for impairment immediately prior to the costs being transferred to property, plant and equipment or whenever facts and circumstances indicate impairment. If any indication exists, then the asset's recoverable amount is estimated. The recoverable amount of an asset or a CGU, as defined below, is the greater of its value in use and its fair value less costs of disposal. Fair value less costs of disposal is determined based on reserve appraisal studies carried out by an independent reserves valuation Company at each reporting date. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "CGU").

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its recoverable amount. Impairment losses are recognized in the statement of comprehensive income / (loss).

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased and no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognized.

xvii) Asset retirement obligation

Provision is recognized for the future restoration of oil and gas wells, production and pipelines at the end of their economic lives. The amount recognized is the present value of the estimated cost to abandon a well and remove production facilities. A corresponding asset of an amount equivalent to the provision is also created and is depleted on a unit of production basis over the proved and probable reserves of the field. Provision is recorded based on the estimates received from the operator, where available, or the information provided by the technical department of the Company based on the best estimates. The increase in provision due to accretion on asset retirement obligation is recorded as finance cost.

xviii) Employee benefits

a) *Wages and salaries, annual leave and sick leave*

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognized in payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

b) *Employee benefit on-costs*

Employee benefit on-costs, including payroll tax, are recognized and included in employee benefit liabilities and costs when the employee benefits to which they relate are recognized as liabilities.

xix) Finance income and expenses

Finance income comprises interest income on bank deposits that is recognized in the statement of comprehensive income / (loss). Interest income is recognized as it accrues in the statement of comprehensive income / (loss) using the effective interest method. Foreign currency exchange gains / (losses) are reported on a net basis.

xx) Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the statement of comprehensive income / (loss) over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a pre-payment for liquidity services and amortized over the period of the facility to which it relates.

xxi) Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. All other borrowing costs are recognized in statement of comprehensive income / (loss) in the period in which they are incurred.

xxii) Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

xxiii) Contingent liability

A contingent liability is disclosed when the Company has a possible obligation as a result of past events, whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company; or the Company has a present legal or constructive obligation as a result of a past event, but it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation, or the amount of the obligation cannot be measured with sufficient reliability.

xxiv) Leases

Leases of property, plant and equipment where the Company, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in short-term and long-term borrowings. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the consolidated statement of comprehensive income / (loss) over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Company will obtain ownership at the end of the lease term.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Company as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated statement of comprehensive income / (loss) on a straight-line basis over the period of the lease.

xxv) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognized as a deduction from equity, net of any tax effects.

xxvi) Dividends

Dividends on ordinary shares are recognized as a liability in the period in which they are declared.

xxvii) Financial Instruments

Financial assets and financial liabilities are recognized when the Company becomes party to the contractual provisions of the instrument and de-recognized when the Company loses control of the contractual rights that comprise the financial assets and in case of the financial liability when the obligation specified in the contract is discharged, cancelled or expired. All financial assets and liabilities are initially measured at fair value, which is the cost of the consideration given and received respectively. These financial assets and liabilities are subsequently measured at fair values, amortized cost or cost based on the classification upon initial recognition.

xxviii) Financial Assets

Classification

The Company classifies its financial assets in the following categories: at fair value through profit or loss, held to maturity investments, loans and receivables and available for sale investments. The classification depends on the purpose for which the financial assets were acquired. All financial instruments held by the Company have been classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements based on the following levels:

- Level 1: quoted prices in active markets for identical assets or liabilities;
- Level 2: observable inputs; and
- Level 3: unobservable inputs

Management determines the classification of its financial assets at initial recognition. Regular purchase and sales of financial assets are recognized on the trade date; the date on which the Company commits to purchase or sell the asset. The Company's financial assets as at December 31, 2016 has been categorized as follows:

i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The Company's loans and receivables comprise 'Cash and cash equivalents', ' Restricted cash', and 'Accounts and other receivables' in the statement of financial position. Loans and receivables are carried at amortized cost using the effective interest method less allowance for any uncollectible amounts.

xxix) Offsetting

Financial assets and liabilities are offset and the net amount is reported in the balance sheet if the Company has a legally enforceable right to set off the recognized amounts and the Company intends to settle on a net basis, or realize the asset and settle the liability simultaneously.

3. Restricted cash	Note	December 31, 2016 US$	December 31, 2015 US$
Term deposits	3.1	200,000	-
Cash reserve fund	3.2	853,561	-
		1,053,561	**-**

3.1 This represents amounts held under lien by the banks as security for a bank guarantee issued to the Government of Pakistan in respect of the Company's pro-rata share of exploration expenditure commitments pursuant to the granting of petroleum exploration licenses. These funds are not available for general corporate purposes.

3.2 This represents a cash reserve fund maintained with Al Baraka under the Syndicated Credit Facility.

4. Accounts and other receivables	Note	December 31, 2016 US$	December 31, 2015 US$
Trade receivables	4.1	1,171,130	5,844,376
Due from related parties	4.2	830,743	818,218
Prepayments		46,621	74,994
Financing transaction costs	4.3	-	218,037
Security deposit		64,348	75,000
Other receivables		340,023	273,201
		2,452,865	**7,303,826**
Provision for impairment	4.2	(818,218)	(818,218)
		1,634,647	**6,485,608**

4.1 The trade receivables are provided as a security by way of irrevocable assignment into the collection accounts maintained with Al Baraka, the lead arranger, acting on behalf of the participants pursuant to the terms of Syndicated Credit Facility (*See note 12.1*).

4.2 This represents US$ 818,218 and US$ 12,525 (2015: US$ 818,218 and US$: Nil) receivable from EEL and EPL respectively. The balances are receivable on demand and carry no interest.

Amount due from EEL represents expenses recharged and payments made on behalf of EEL. EEL has an 11% and 12% working interest in the Sanjawi and Zamzama North exploration licenses respectively. However, owing to expiry of the term of the Zamzama North exploration license and force majeure declaration by the operator in the Sanjawi exploration license, the Company has fully provided for the balance receivable from EEL.

4.3 As at December 31, 2015 there was $218,037 of deferred financing transaction costs. During the current period, the entire deferred financing transaction costs have been netted off against the proceeds of the Syndicated Credit Facility.

5. Property, plant and equipment	Oil and gas properties	Computer equipment	Furniture and fixtures	Office equipment	Motor vehicles	Total
	-----	-----	----- US$ -----	-----	-----	-----
Cost	50,149,606	92,144	24,011	48,949	74,218	50,388,928
Accumulated depletion, depreciation and impairment	(19,531,192)	(84,938)	(12,548)	(26,781)	(42,054)	(19,697,513)
Opening net book value	**30,618,414**	**7,206**	**11,463**	**22,168**	**32,164**	**30,691,415**
Year ended December 31, 2016						
Additions during the year	2,659,019	2,635	-	-	272,968	2,934,622
Addition / (revision) in estimate of asset retirement obligation	495,158	-	-	-	-	495,158
Depletion / depreciation for the year	(2,162,602)	(4,339)	(3,299)	(8,256)	(47,292)	(2,225,788)
Net reversal of impairment for the year **– note 5.1**	13,022,162	-	-	-	-	13,022,162
Carrying amount at December 31, 2016	**44,632,151**	**5,502**	**8,164**	**13,912**	**257,840**	**44,917,569**

Cost	53,303,783	94,779	24,011	48,949	347,186	53,818,708
Accumulated depletion, depreciation and impairment	(8,671,632)	(89,277)	(15,847)	(35,037)	(89,346)	(8,901,139)
Net book value at December 31, 2016	**44,632,151**	**5,502**	**8,164**	**13,912**	**257,840**	**44,917,569**
Cost	46,961,216	86,109	13,886	25,074	74,218	47,160,503
Accumulated depletion / depreciation	(1,862,638)	(73,678)	(10,714)	(22,217)	(27,213)	(1,996,460)
Opening net book value	**45,098,578**	**12,431**	**3,172**	**2,857**	**47,005**	**45,164,043**
Year ended December 31, 2015						
Additions during the year	2,854,150	6,035	10,125	23,875	-	2,894,185
Transfer from exploration and evaluation assets	385,572	-	-	-	-	385,572
Revision in estimate of asset retirement obligation	(51,332)	-	-	-	-	(51,332)
Depletion / depreciation for the year	(3,586,554)	(11,260)	(1,834)	(4,564)	(14,841)	(3,619,053)
Impairment for the year **– note 5.1**	(14,082,000)	-	-	-	-	(14,082,000)
Carrying amount at December 31, 2015	**30,618,414**	**7,206**	**11,463**	**22,168**	**32,164**	**30,691,415**
Cost	50,149,606	92,144	24,011	48,949	74,218	50,388,928
Accumulated depletion, depreciation and impairment	(19,531,192)	(84,938)	(12,548)	(26,781)	(42,054)	(19,697,513)
Net book value at December 31, 2015	**30,618,414**	**7,206**	**11,463**	**22,168**	**32,164**	**30,691,415**
Annual rate of depreciation (%)		33.33%	20.00%	33.33%	20.00%	

Motor vehicles includes the following amounts where the Company is a lessee under a finance lease (*refer to note 12.2 for further details*):

	Note	**December 31, 2016 US$**	**December 31, 2015 US$**
Leasehold motor vehicles			
Cost		272,968	-
Accumulated depreciation		(32,448)	-
Carrying amount at end of year		**240,520**	**-**

5.1 Net reversal of impairment for the year

Impairment of Badar lease	7	(312,838)	-
Reversal / (impairment) of CGU-I	5.2	13,335,000	(14,082,000)
		13,022,162	**(14,082,000)**

5.2 Reversal / (impairment) of CGU-I

The review of the Company's PP&E assets for indicators of impairment as at December 31, 2016 provided evidence that impairment previously recorded should be reversed.

<u>2015 Impairment of CGU-I</u>

In the year ended December 31, 2015, as a result of decline in the international crude oil prices and the carrying value of net assets of the Company being more than its market capitalization, the management carried out an impairment test for the two CGUs of the Company comprised of development and production properties in Pakistan falling in Zone II (CGU-I) and Zone III (CGU-II) respectively, in accordance with the accounting policy stated in note 2(xvi). The tests were performed using a fair value less cost of disposal (FVLCD) methodology using a discounted cash flow model. The fair value of each CGU was categorized as Level 3 fair value based on the unobservable inputs used. The present value of future cash flows was computed by applying forecasted prices of gas reserves to estimated future production of proved and probable gas reserves, less estimated future expenditures to be incurred in developing and producing the proved and probable reserves. The present value of estimated future net cash flows was computed using an after-tax discount rate of 15%. The discount rate used reflects the specific risks relating to the underlying CGUs. As a result of the impairment tests carried out in 2015, an impairment charge of US$ 14.1

million for CGU-I was recorded. At December 31, 2015, the recoverable amount of CGU-I was US$ 19.78 million. No impairment was required to be recognized for CGU-II.

2016 Reversal of Impairment of CGU-1

As at December 31, 2016, the recoverable amount of the CGU-I was estimated to be US$ 35.81 million resulting in reversal of impairment of US$ 13.33 million net of depletion that would have been recorded had no impairment been recorded. The reversal arose due to the increase in the CGU's estimated recoverable amount caused by an improvement in international crude oil price forecast and availability of improved reserves estimates after drilling the third development well in Zarghun South lease. The fair value of CGU-I was categorized as Level 3 fair value based on the unobservable inputs used.

The crude oil forecast prices used in to determine the recoverable amount are US$55/bbl in 2017, US$65/bbl in 2018 and 2019 and US$75/bbl in 2020 and onwards.

The FVLCD calculation assumes weighted average gas prices in US$/Mcf as follows:

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
	--US$/Mcf--									
CGU-I	4.44	4.65	4.61	5.00	5.35	5.62	5.65	5.65	5.65	5.65

Estimates of the recoverable amounts of the CGUs are sensitive to discount rate and crude oil prices.

A 1% increase / (decrease) in the discount rate would have resulted in (decrease) / increase in the recoverable amounts by (US$ 1.49 million) / US$ 1.61 million.

A 5% increase / (decrease) in the crude oil price would have resulted in an increase / (decrease) in the recoverable amounts by US$ 0.68 million / (US$ 0.68 million).

6. **Exploration and evaluation assets**	**Note**	**December 31, 2016 US$**	**December 31, 2015 US$**
Balance at beginning of the year		12,127,275	10,997,779
Additions / (adjustments) during the year		(205,178)	1,583,931
Transferred to property, plant and equipment		-	(385,572)
Impairment for the year	7	(6,916,212)	-
Addition / (revision) in estimate of asset retirement obligation		220,927	(25,398)
Exploration and evaluation assets written off during the year	6.1	(8,406)	(43,465)
Carrying amount at end of year	6.2	**5,218,406**	**12,127,275**

6.1 Owing to expiry of the term of the Zamzama North exploration license and force majeure declaration by the operator in the Sanjawi exploration license, all the costs incurred during the year have been written off.

6.2 During the year, the Directorate General of Petroleum Concessions ("DGPC") issued a notice to M/s Heritage Oil & Gas Limited, the operator of Sanjawi and Zamzama North exploration licenses (the "Operator"), to remedy the breach of failing to discharge the minimum work commitments and financial obligations in the Zamzama North Exploration License as stipulated in the Petroleum Concession Agreement ("PCA") and applicable Pakistan Petroleum (Exploration and Production) Rules 2001 (Rules). Thereafter, DGPC issued a show cause notice to the Operator to explain as to why the Zamzama North Exploration License / PCA may not be revoked. The Operator responded to DGPC that the Joint Venture ("JV") partners do not intend to challenge the proposed revocation of the License and PCA, however, the JV partners will not under any circumstance accept that they have or should incur any further liability towards the Government or DGPC in relation to or arising from the license, PCA or under the Rules because the reasons which prevented the Operator from discharging its obligations under the License and PCA were outside the control of the Operator and the JV partners.

Further, DGPC issued a notice of termination to the Operator in respect of the Sanjawi Exploration License and required the Operator to, among other conditions, settle payment of all outstanding work obligations and other financial obligations, as stipulated in the PCA, arising prior to the date of declaration of *force majeure*. The Operator responded that the obligations have either already been fully discharged or are otherwise not applicable, given the historical facts leading up to the formal declaration of the *force majeure*. Therefore, the obligations set out in the notice of termination do not apply.

The management, along with the JV partners, is pursuing the matter with DGPC and is confident that there will be no financial and other obligation in respect of the above notices because the reasons resulting in the breaches were not in the control of the JV partners. Further, the management, based on legal advice, is of the view that the Company is not liable to pay liquidated damages in respect of the undischarged work commitments until completion of assignment of the working interests in Zamzama North and Sanjawi exploration licenses to the Company, which is currently pending. Accordingly, the Company has no exposure to any obligation resulting from the notices given by DGPC.

7. Settlement with Petroleum Exploration (Private) Limited

On August 12, 2016, FHL, PEL and SEPL entered into a Settlement Agreement (the "Agreement") providing terms for the settlement of all disputes between FHL and PEL. PEL is the operator of FHL's Badin IV North, Badin IV South, Ayesha and Kandra working interests and SEPL's Badar working interest. In connection with the settlement of the disputes, FHL, SEPL and PEL have agreed to the following:

a) the two arbitration matters between FHL and PEL before the International Chamber of Commerce (the "Arbitrations") have been withdrawn;
b) each party shall bear their own legal and other costs with respect to the Arbitrations and the settlement, and neither party shall claim reimbursement of such costs from the other party;
c) PEL has irrevocably withdrawn the default notice and forfeiture notices served to FHL with respect to the Badin IV South exploration license ("Badin IV South");
d) PEL has irrevocably withdrawn the application submitted to the Government of Pakistan seeking assignment to PEL of FHL's working interest in Badin IV South;
e) PEL has agreed to pay certain current and future exploration and development costs attributable to FHL's working interest share of expenditures under the Kandra Development and Production Lease and the Badin IV North and Badin IV South exploration licenses;
f) PEL has agreed to pay certain development costs attributable to FHL's working interest share of expenditure in the Ayesha Development and Production Lease and the Aminah and Ayesha North gas discoveries in Badin IV South;
g) PEL has agreed to carry a certain percentage of FHL's working interest in the drilling of an exploration well in the Kandra Development and Production Lease;
h) FHL have agreed to waive their audit rights in relation to certain past costs;
i) SEPL has agreed to sell its working interest in the Badar Mining Lease to PEL for cash consideration payable upon completion of the transfer, which is subject to customary approvals in Pakistan; and
j) FHL has agreed to transfer its entire working interest in the Kandra Development and Production Lease and assign its interest in Kandra Power Company to PEL.

As a result of the settlement, an impairment of US$ 7,229,050 (US$ 312,838 in respect of property, plant and equipment and US$ 6,916,212 in respect of exploration and evaluation assets) has been recognized in the statement of comprehensive income / (loss).

8. Intangible assets

	Note	December 31, 2016	December 31, 2015
		US$	US$
Cost			
At beginning of the year		76,424	76,424
Additions during the year		-	-
At end of the year		**76,424**	**76,424**
Accumulated amortization			
At beginning of the year		(47,126)	(31,842)
Amortization charge		(15,284)	(15,284)
At end of the year		**(62,410)**	**(47,126)**
Net book value		**14,014**	**29,298**
Annual rate of amortization (%)		20%	20%

9.	Long term receivables	Note	December 31, 2016 US$	December 31, 2015 US$
	Advance tax		161,473	161,298
			161,473	**161,298**

10.	Accounts payable and accrued liabilities	Note	December 31, 2016 US$	December 31, 2015 US$
	Trade payables		1,553,297	472,273
	Due to concession operators		4,746,602	10,175,701
	Royalty payable		2,142,055	1,352,942
	Sales tax payable		117,226	1,596,405
	Accrued liabilities		438,745	398,518
	Deferred revenue	10.1	1,704,954	1,324,610
	Other payables		1,329,856	753,450
			12,032,735	**16,073,899**

10.1 Deferred revenue represents US$ 60,612 collected on behalf of PEL in respect of gas sales attributable to the Company's 7.89% working interest in Badar, net of royalty, which is to be transferred to PEL pursuant to the terms of Settlement Agreement dated August 12, 2016 and US$ 1,644,342 representing excess revenue receipts, from Engro Fertilizers Limited ("the buyer") on account of gas sale from the Reti, Maru and Maru South leases (the "fields"). Pursuant to certain amendments made in the 2012 Petroleum Policy, the eventual gas price of the fields may be lower than the provisional gas price stipulated under the Gas Sale and Purchase Agreement ("GSA") agreed with the buyer. Pending final gas price notification, the production from the fields is invoiced at the provisional price under the GSA.

11.	Amounts due to related parties	Note	December 31, 2016 US$	December 31, 2015 US$
	Non-current			
	Shareholder loans	11.1	9,437,368	-
			9,437,368	**-**
	Current			
	Term finance facility	11.3	-	965,889
	Running finance facility	11.3	-	1,939,387
	Shareholder loans	11.1	-	10,175,454
			-	**13,080,730**
			9,437,368	**13,080,730**

11.1	Shareholder loans	Note	December 31, 2016 US$	December 31, 2015 US$
	Current account with shareholder		-	1,735,000
	Bridge loan payable to shareholder	11.2	9,437,368	8,440,454
			9,437,368	**10,175,454**

11.2 On February 20, 2013, SEPL entered into an unsecured bridge loan financing arrangement of C$11 million with the majority shareholder of the Company, EPL. The principal and accrued interest outstanding at any time, bore interest at the rate of 3-months US$ LIBOR plus 4% compounded quarterly. The facility was due for repayment on demand. Further, EPL had the option to convert, in whole or in part, the principal and accrued interest under the facility for a subscription of JEC shares, on the basis of one JEC share for each C$1.00 so converted ("the Conversion Option") subject to the restriction that, during any six month period, the aggregate number of JEC shares issuable to EPL under the Conversion Option may not exceed 10% of the number of JEC shares outstanding, on a non-diluted basis, prior to the date of the first conversion.

At December 31, 2016, the loan comprised two components: (i) the host agreement and (ii) the embedded derivative representing the written option to EPL to convert the loan amount into JEC shares. The host agreement has been accounted for using the amortized cost method and the embedded derivative has been accounted for at fair value determined using the Black-Scholes Option Pricing Model. The fair value of the embedded derivative at December 31, 2016 was Nil (December 31, 2015: Nil).

Effective October 1, 2016, SEPL, JEC and EPL entered into a fourth amended and restated loan agreement pursuant to which the following modifications were agreed:

i. The repayment currency was changed to US Dollars;
ii. the interest rate was changed from 3-month LIBOR plus 4% to a fixed 11% per annum compounded quarterly; and
iii. the principal amount and accrued interest was made repayable in four quarterly installments commencing January 1, 2018.

These modifications resulted in significant qualitative changes to the risk profile of the modified shareholder loan. The modifications have been accounted for as extinguishment of the original shareholder loan and a recognition of the new shareholder loan. The fair value of the new shareholder loan is calculated using a discount rate of 11.19% representing the Company's costs of unsecured subordinated borrowings.

As a result of extinguishment, a gain of US$ 27,835 has been recorded in the statement of comprehensive loss. The movement in shareholder loan is as follows:

	December 31, 2016 US$	December 31, 2015 US$
Balance at beginning of the year	8,440,454	8,416,707
Disbursements during the year	-	1,200,000
Interest for the year	300,305	353,019
Exchange loss / (gain) on retranslation	467,544	(1,529,272)
Extinguishment of shareholder loan	(9,208,303)	-
Recognition of new shareholder loan at fair value	9,180,468	-
Interest for the year	256,900	-
	9,437,368	**8,440,454**

11.3 On January 19, 2016, these financing facilities with JS Bank Limited, a related party, were settled in full from the proceeds of the Syndicated Credit Facility.

12. Borrowings	**Note**	**December 31, 2016 US$**	**December 31, 2015 US$**
Current			
Syndicated credit facilities	12.1	1,997,535	-
Finance lease obligations	12.2	44,391	-
		2,041,926	**-**
Non-current			
Syndicated credit facilities	12.1	8,113,872	-
Finance lease obligations	12.2	176,026	-
Subordinated debentures	12.3	3,961,700	3,902,270
		12,251,598	**3,902,270**
Total borrowings		**14,293,524**	**3,902,270**

12.1 On December 30, 2015, SEPL entered into a Musharaka Agreement dated effective December 18, 2015 in respect of the Zarghun South lease under the Syndicated Credit Facility with Al Baraka, as lead arranger, in the amount of up to PKR 750 million (approximately US$ 7.15 million). On April 8, 2016, SEPL entered into a First Supplemental Musharaka Agreement, pursuant to which the facility amount in respect of the Zarghun South lease was increased from PKR 750 million (approximately US$ 7.15 million) to PKR 960 million (approximately US$ 9.16 million).

On May 11, 2016, SEPL entered into a second Musharaka Agreement in respect of the Sara and Suri leases under the Syndicated Credit Facility, in the amount of up to PKR 100 million (approximately US $ 0.95 million) resulting in an increase in the Syndicated Credit Facility from PKR 960 million (approximately US $ 9.2 million) to PKR 1,060 million (approximately US $ 10.11 million).

The Syndicated Credit Facility carries mark-up at the rate of 3-month Karachi Interbank Offered Rate (“KIBOR”) plus 2.75%. The principal is repayable in sixteen equal quarterly instalments in arrears, commencing fifteen months after the date of first disbursement i.e. January 19, 2016. The Syndicated Credit Facility is secured by way of first charge on all present and future fixed assets of SEPL, an assignment of receivables originating from sale of gas from the Badar, Reti-Maru and Zarghun South leases in favour Al Baraka, acting on behalf of the participants, lien on a cash reserve fund and a corporate guarantee by JEC. As at December 31, 2016, SEPL has fully utilized the Syndicated Credit Facility. The Syndicate includes JS Bank Limited, a related party, with participation of PKR 500 million (approximately US$ 4.77 million).

Under the terms of the Syndicated Credit Facility, SEPL must comply with the following financial covenants:

i. Maintain a debt service coverage ratio of at least 1.25 times;
ii. Current ratio of 1:1; and
iii. Debt to equity ratio of not more that 70:30.

As at December 31, 2016, SEPL was in compliance with the financial covenants and all other terms of the Syndicated Credit Facility except for the current ratio for which a deferral was granted, up to December 31, 2017, by Al Baraka, acting on behalf of the participants, on December 30, 2016.

12.2 In February 2016, SEPL entered into a Diminishing Musharaka facility with Al Baraka for the lease of vehicles for the Company’s employees, in the amount of up to PKR 42 million (approximately US $ 0.40 million). Under the terms of the facility, the Company has the option to acquire the leased vehicles without any consideration upon expiry of the lease term. The lease term is five years. The commitments in relation to the finance lease payable are as follows:

	December 31, 2016 US$	**December 31, 2015 US$**
Within one year	62,779	-
Later than one year but not later than five years	205,215	-
Later than five years	-	-
Minimum lease payments	**267,994**	**-**
Future interest payments	(47,577)	-
Recognized as liability	**220,417**	**-**
The present value of finance lease liabilities is as follows:		
Within one year	44,391	-
Later than one year but not later than five years	176,026	-
Later than five years	-	-
Minimum lease payments	**220,417**	**-**

12.3 On May 24, 2013 the Company completed the private placement of 4,000 subscription units. Each unit comprised a debenture of US$ 1,000 carrying interest at the rate of 11% per annum and 200 warrants exercisable at a price of C$ 0.36 per common share of the Company. As a consideration of the successful placement of subscription units, the Company’s advisor was granted 50,000 warrants and paid a cash success fee. Interest is payable in arrears in equal semi-annual payments on April 30 and on October 30 each year. The repayment of debentures will fall due on April 30, 2018 or an earlier date at the option of the Company.

The financing comprises two components: (i) subordinated debentures and (ii) warrants of US$ 117,672 representing the right of debenture holders to acquire JEC’s shares. The subordinated debentures have been accounted for using the amortized cost method and share purchase warrants have been accounted for at fair value on the May 24, 2013 closing date, determined using the Black-Scholes Option Pricing Model. The share purchase warrants will expire on April 30, 2018. The assumptions used in the calculation of fair value of C$ 0.14 per share purchase warrants are:

Risk-free interest rate (%)	1.14
Expected life (years)	4.94
Estimated volatility of underlying common shares (%)	70.00

13. The contractual maturities of borrowings and amounts due to related parties are as follows:

	Carrying value US$	Not later than one year US$	Later than one year and not later than five years US$	Later than five years US$
At December 31, 2016				
Amounts due to related parties				
Shareholder loans	9,437,368	-	9,437,368	-
Borrowings				
Syndicated credit facilities	10,111,407	1,997,535	8,113,872	-
Finance lease obligations	220,417	44,391	176,026	-
Subordinated debentures	3,961,700	-	3,961,700	-
	23,730,892	**2,041,926**	**21,688,966**	**-**
At December 31, 2015				
Amounts due to related parties				
Term finance facility	965,889	965,889	-	-
Running finance facility	1,939,387	1,939,387	-	-
Shareholder loans	10,175,454	10,175,454	-	-
Borrowings				
Subordinated debentures	3,902,270	-	3,902,270	-
	16,983,000	**13,080,730**	**3,902,270**	**-**

The fair value of amounts due to related parties and borrowings is not materially different to their carrying amount, since the interest payable is close to the current market rate. The fair values are determined based on discounted cash flows using the Company's weighted average current cost of borrowing.

The carrying amounts of borrowings and amounts due to related parties are denominated in the following currencies:

Currency	**December 31, 2016** **US$**	**December 31, 2015** **US$**
Canadian Dollars	-	8,440,454
United States Dollars	13,399,068	5,637,270
Pakistan Rupee	10,331,824	2,905,276
	23,730,892	**16,983,000**

14. Asset retirement obligation

Balance at beginning of the year	2,564,356	2,374,970
Additions during the year	632,840	215,351
Revisions due to change in estimates	83,245	(76,730)
Accretion on asset retirement obligation	55,641	50,765
Carrying amount at end of the year	**3,336,082**	**2,564,356**

The Company's asset retirement obligation arose from its working interest ownership in petroleum and natural gas properties, including tangible well equipment and processing facilities. The Company's estimate of the total undiscounted cash flows required to settle its asset retirement obligation is US$ 3,479,252 which is expected to be incurred between 2019 and 2031.

A risk-free rate of interest ranging between 1.7% to 2.62% and inflation at an annual rate of 2.1% were used to calculate the net present value of the asset retirement obligation. If the discount factor applied to compute the asset retirement obligation were to decrease by 1%, the present value of asset retirement obligation would increase by US$ 0.29 million.

15. Share capital

Authorized share capital

The Company is authorized to issue an unlimited number of common shares and an unlimited number of preferred shares. The preferred shares may be issued in one or more series, with rights and privileges for each series as determined by the Board. As at December 31, 2016, 69,076,328 (December 31, 2015: 69,076,328) common share of C$ 1 were outstanding.

15.1 Stock options

The Company has a share option plan pursuant to which options may be granted to directors, officers, and employees of the Company. The options generally vest over a period of up to three years and expire no more than five years from the date of grant.

On May 4, 2015, the Company granted 50,000 options with an exercise price of C$1 to one of its directors. The weighted average fair value of stock options granted was US$ 0.20 per stock option as at May 4, 2015 using the Black Scholes Pricing Model.

The assumptions used in the calculations are:	**May 04, 2015**
Risk-free interest rate (%)	0.88
Expected life (years)	5.00
Estimated volatility of underlying common shares (%)	85.00
Forfeiture rate (%)	0.00

	Year ended December 31, 2016			**Year ended December 31, 2015**		
	Number of options	**Weighted average exercise price**		**Number of options**	**Weighted average exercise price**	
		US$	**C$**		**US$**	**C$**
Options outstanding, beginning of year	1,025,000	0.72	1.00	2,368,294	0.61	0.84
Granted	-	-	-	50,000	0.72	1.00
Exercised	-	-	-	-	-	-
Forfeited	-	-	-	-	-	-
Expired	-	-	-	(1,393,294)	0.53	0.73
Options outstanding, end of year	1,025,000	0.74	1.00	1,025,000	0.72	1.00
Options exercisable, end of year	1,008,333	0.74	1.00	991,666	0.72	1.00

Price		**Number outstanding**	**Weighted average remaining contractual life (years)**	**Exercisable**
US$	**C$**			
0.74	1.00	1,025,000	1.34	1,008,333
0.74	1.00	1,025,000	1.34	1,008,333

15.2 Stock-based compensation and contributed surplus

During the year ended December 31, 2016 stock-based compensation of US$ 2,807 (December 31, 2015: US$ 16,134) was charged to the consolidated statement of comprehensive loss.

15.3 Warrants

As at December 31, 2016, 850,000 (December 31, 2015: 850,000) share purchase warrants were outstanding. These warrants were issued to the investors and the Company's advisor for successful placement of subordinated debentures amounting to US$ 4 million in 2013. Each warrant is convertible into one ordinary share of the Company, is exercisable at a price of C$ 0.36 (US$ equivalent: US$ 0.26) per share and will expire on April 30, 2018. The fair value was determined using the Black-Scholes Option Pricing Model with the assumptions referred to in note 12.3.

16. Contingencies and commitments

16.1 Bank guarantees issued to the Government of Pakistan

A bank guarantee of PKR 19 million (equivalent US$ 181,298) (2015: nil) has been issued to the Directorate General Petroleum Concessions in respect of minimum work commitments under the Badin IV South exploration license.

16.2 Disputes with PEL

During the current period, FHL was a party to two arbitration proceedings, one initiated by PEL in relation to an Area of Mutual Interest provision contained in the Kandra Farm-in Agreement and the other initiated by FHL against PEL in relation to PEL's attempt to forfeit FHL's working interest in the Badin IV South exploration license owing to a purported default by FHL in respect of payment of a cash call for the month of May 2015.

On August 12, 2016, FHL, SEPL and PEL entered into a Settlement Agreement, pursuant to which, both FHL and PEL have withdrawn their respective requests for arbitration with ICC *(See Note 7)*.

16.3 Taxation

The Company is involved in claims and actions arising in the course of the Company's operations and is subject to various legal actions and exposures, including tax positions taken by the Company. Although the outcome of these claims cannot be predicted with certainty, the Company does not expect these matters to have a material adverse effect on the Company's financial position, cash flows or results of operations. If an unfavorable outcome were to occur, there exists the possibility of a material adverse impact on the Company's consolidated net earnings or loss in the period in which the outcome is determined. Accruals for litigation, claims and assessments are recognized if the Company determines that the loss is probable and the amount can be reasonably estimated. The Company believes it has made adequate provision for such legal claims. While fully supportable in the Company's view, some of these positions, including uncertain tax positions, if challenged may not be fully sustained on review.

16.4 Commitments

	Note	December 31, 2016 US$	December 31, 2015 US$
Minimum capital commitments related to exploration licenses	16.5	4,097,000	4,099,250
Commitments under approved AFEs		145,200	1,561,169
Commitment under sale purchase agreement for the acquisition of EEL		1,000	1,000
Commitment under operating leases:			
- Not later than one year		49,498	64,071
- Later than one year and less than five years		36,164	86,578
- Later than five years		-	-
		4,328,862	**5,812,068**

16.5 Breakdown of minimum capital commitments related to exploration licenses:

	2017 US$	2018 US$	2019 US$	Total US$
Sanjawi	668,250	94,500	1,755,000	2,517,750
Zamzama North	1,224,000	-	-	1,224,000
Guddu	355,250	-	-	355,250
Total	**2,247,500**	**94,500**	**1,755,000**	**4,097,000**

17. Net revenue

Net revenue represents sale of gaseous hydrocarbons from the Badar, Reti, Maru, Maru South, Maru East and Zarghun South gas fields net of royalty amounting to US$ 768,884 (December 31, 2015: US$ 1,211,539).

18. **Cost of production**	Note	December 31, 2016	December 31, 2015

	Note	US$	US$
Production costs		3,177,515	2,695,737
Depletion of oil and gas properties	5	2,162,602	3,586,554
		5,340,117	**6,282,291**

19. General and administrative expenses

Employees benefits	1,162,516	1,254,906
Directors' compensation	162,570	117,286
Amortization and depreciation	78,470	47,783
Legal and professional charges	2,850,516	978,064
Travelling expenses	200,294	200,367
Consultancy	761,942	435,569
Office rent and utilities	121,384	157,531
Other expenses	730,597	299,940
	6,068,289	**3,491,446**

20. Finance costs / (income)

Interest on amount due to related parties	569,175	685,388
Interest on borrowings	1,353,129	489,734
Accretion on asset retirement obligation	55,641	50,765
Currency translation exchange (gain) / loss	305,566	(1,724,591)
Interest / (adjustment) on late payment of cash calls to operators	(584,583)	1,194,825
	1,698,928	**696,121**

21. Income tax

21.1 Current tax

The Company does not owe any tax for the current year.

21.2 Future tax

The differences between the income tax provisions calculated using statutory rates and the reported income tax provision are as follows:

	Note	December 31, 2016 US$	December 31, 2015 US$
Current income tax expense (recovery):			
Net loss before income tax		(1,520,478)	(15,968,754)
Federal and provincial statutory rates	**21.3**	27.00%	26.01%
Expected income tax recovery		(410,530)	(4,153,473)
Foreign tax rate differential		11,342	(2,083,730)
Non-deductible payments and provisions		151,206	52,842
Asset not recognized	**21.4**	247,982	6,184,361
		-	-

21.3 The increase in the statutory rate was due to higher provincial income tax rates in Canada in the current year.

21.4 As at December 31, 2016, the Company has consolidated non-capital tax losses of US$ 40.7 million, expiring between 2017 and 2036, which can be used to reduce income taxes otherwise payable in Canada and Pakistan. Entity-wise breakup of tax losses and their expiry as at December 31, 2016 is as follows:

	US$	Expiry
Jura Energy Corporation	12,812,539	2027 to 2036
Spud Energy Pty Limited - Pakistan branch	11,919,678	2017 to 2021
Frontier Holdings Limited - Pakistan branch	15,961,935	2019 to 2024
	40,694,152	

A deferred tax asset has not been recognized for these tax losses as the Company cannot demonstrate that it is probable that these losses will be realized to reduce or eliminate taxes on taxable income in Canada and Pakistan in future years.

22. Loss per share

	Note	December 31, 2016 US$	December 31, 2015 US$
Net loss for the year		(1,520,478)	(15,968,754)
Weighted average number of outstanding shares	22.1	69,076,328	69,076,328
Loss per share - basic and diluted (US$ per share)		(0.02)	(0.23)

22.1 For the year ended December 31, 2016 and 2015, employee stock options (1,025,000), stock option under shareholder loans (6,907,632) and share purchase warrants (850,000) were excluded from the calculation of diluted shares as they would be anti-dilutive.

23. Financial risk management

23.1 Financial risk factors

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance.

Risk management is carried out by the Board. The Board provides risk management guidance covering specific areas such as foreign exchange risk, interest rate risk, credit risk and investment of excess liquidity.

Market risk

i) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Currency risk arises mainly from future commercial transactions, or receivables and payables that exist due to transactions in foreign currencies. The Company is exposed to currency risk arising from various currency exposures, primarily with respect to the Pakistan Rupee (PKR) and Canadian Dollar (CAD). Currently, the Company's foreign exchange risk exposure is restricted to the amounts receivable from / payable in foreign currency. The Company's exposure to currency risk is as follows:

PKR	December 31, 2016 US$	December 31, 2015 US$
Bank balances	18,870	17,647
Restricted cash	853,561	-
Accounts and other receivables	456,482	1,072,968
Accounts payable and accrued liabilities	(3,220,391)	(3,470,953)
Amounts due to related parties	-	(2,905,276)
Net exposure	**(1,891,478)**	**(5,285,614)**
CAD		
Bank balances	6,056	3,689
Accounts and other receivables	30,674	13,556
Accounts payable and accrued liabilities	(415,017)	(294,472)
Amounts due to related parties	-	(8,440,454)
Net exposure	**(378,287)**	**(8,717,681)**

The following significant exchange rates were applied during the year:

PKR per USD		
Average rate	104.30	101.94
Reporting date rate	104.80	104.80
CAD per USD		
Average rate	1.36	1.28
Reporting date rate	1.35	1.38

If the functional currency, at the reporting date, had fluctuated by 5% against the PKR and CAD with all other variables held constant, the impact on comprehensive income / (loss) for the year would have been US$ 113,488 (2015: US$ 700,165) respectively lower / higher, mainly as a result of exchange gains / losses on translation of foreign exchange denominated financial instruments. Currency risk sensitivity to foreign exchange movements has been calculated on a symmetric basis.

ii) Other price risk

Other price risk represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The Company does not have any financial instrument exposed to other price risk.

iii) Interest rate risk

Interest rate risk represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. At the date of the statement of financial position, the interest rate profile of the Company's interest bearing financial instruments is:

	December 31, 2016 US$	**December 31, 2015 US$**
Fixed rate instruments		
- Borrowings	3,961,700	3,902,270
- Amounts due to related parties	9,437,368	-
Floating rate instruments		
- Borrowings	10,331,824	-
- Amounts due to related parties	-	11,345,730

Fair value sensitivity analysis for fixed rate instruments

If the interest rate, at the reporting date, had fluctuated by 1% with all other variables held constant, the impact on comprehensive income / (loss) for the year would have been US$ 103,318 (December 31, 2015 US$ 113,457) respectively lower / higher, mainly as a result of interest on floating rate financial instruments. Interest rate risk sensitivity to foreign exchange movements has been calculated on a symmetric basis.

iv) Credit risk

Credit risk represents the risk that one party to a financial instrument will cause a financial loss for the other party, by failing to discharge an obligation. The maximum exposure to credit risk at the reporting date is as follows:

	December 31, 2016 US$	**December 31, 2015 US$**
Cash at bank	179,389	1,723,170
Restricted cash	1,053,561	-
Accounts and other receivables	1,634,647	6,485,608
	2,867,597	**8,208,778**

The credit risk on liquid funds is limited, because the counter parties are banks with reasonably high credit ratings. In case of trade receivables, the Company believes that it is not exposed to major concentrations of credit risk, due to high credit worthiness of corresponding parties. The credit quality of bank balances and restricted cash, that are neither past due nor impaired, can be assessed by reference to external credit ratings (if available) or to historical information about the counterparty default rate:

	Rating agency	Credit rating	2016 US$	2015 US$
RBC – Canada	Moody's	Aa3	63,673	26,318
HSBC – Australia	Moody's	A1	-	15,970
Meezan Bank Limited	JCR-VIS[3]	A-1+	842	847
Bank Alfalah Limited	PACRA[2]	A1+	614	618
Askari Bank Limited	JCR-VIS[3]	A-1+	1,321	1,331
JS Bank Limited	PACRA	A1+	6,538	1,523
Al Baraka Bank Pakistan Limited	PACRA	A1	1,159,962	1,676,563
			1,232,950	**1,723,170**

[1]Moody's Investors Service
[2]The Pakistan Credit Rating Agency Limited
[3]Japan Credit Rating Agency, Ltd (JCR) and Vital Information Services (Pvt.) Limited (VIS)

Due to the Company's long standing business relationships with these counterparties, and after giving due consideration to their strong financial standing, management does not expect non-performance by these counter parties on their obligations to the Company. Accordingly, the credit risk is minimal. As of December 31, 2016, trade receivables of US$ 1,171,130 (2015: US$ 3,479,063) were past due but not impaired. The ageing analysis of these trade receivables is as follows:

	December 31, 2016 US$	December 31, 2015 US$
Up to 3 months	1,171,130	2,202,009
3 to 6 months	-	1,277,054
Above 6 months	-	-
	1,171,130	**3,479,063**

v) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Company follows an effective cash management and planning to ensure availability of funds, and to take appropriate measures for new requirements.
The following are contractual maturities of financial liabilities as at December 31, 2016 and 2015:

	Less than 6 months	6-12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total contractual cash flows	Carrying amount
December 31, 2016	**US$**	**US$**	**US$**	**US$**	**US$**	**US$**	**US$**
Accounts payable and accrued liabilities	12,032,735	-	-	-	-	12,032,735	12,032,735
Amounts due to related parties	-	-	10,970,389	-	-	10,970,389	9,437,368
Borrowings	1,326,597	1,918,886	7,447,585	6,458,860	-	17,151,928	14,293,524
	13,359,332	**1,918,886**	**18,417,974**	**6,458,860**	**-**	**40,155,052**	**35,763,627**
December 31, 2015							
Accounts payable and accrued liabilities	16,073,899	-	-	-	-	16,073,899	16,073,899
Amounts due to related parties	13,092,700	-	-	-	-	13,092,700	13,080,730
Borrowings	220,000	220,000	440,000	4,220,000	-	5,100,000	3,902,270
	29,386,599	**220,000**	**440,000**	**4,220,000**	**-**	**34,266,599**	**33,056,899**

There is a material uncertainty about the Company's ability to continue as going concern, see note 2 (i) for details regarding the going concern assumption.

23.2 Fair value of financial assets and liabilities

The fair valuation of financial assets and liabilities is determined using different levels defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is unobservable inputs) (Level 3).

The fair value of cash and cash equivalents, restricted cash, accounts and other receivables, accounts payable and accrued liabilities and amounts due to related parties approximate their carrying amount due to the short-term nature of the instruments. The fair value of the Company's subordinated debentures approximates its carrying value as the interest rates charged on these debentures are comparable to current market rates.

23.3 Financial instruments by category

Financial assets	**Loans and receivables**	
	December 31, 2016	**December 31, 2015**
	US$	**US$**
Cash and cash equivalents	179,913	1,723,906
Restricted cash	1,053,561	-
Accounts and other receivables	1,634,647	6,485,608
	2,868,121	**8,209,514**

Financial liabilities	**Other financial liabilities**	
	December 31, 2016	**December 31, 2015**
	US$	**US$**
Accounts payable and accrued liabilities	12,032,735	16,073,899
Amounts due to related parties	9,437,368	13,080,730
Borrowings	14,293,524	3,902,270
	35,763,627	**33,056,899**

23.4 Capital risk management

The Board's policy is to maintain an efficient capital base so as to maintain investor, creditor and market confidence, and sustain the future development of the Company's business. The Board monitors the return on capital employed, which the Company defines as operating income divided by total capital employed. The Board also monitors the level of dividends to ordinary shareholders.

The Company's objectives when managing capital are:

i) to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
ii) to provide an adequate return to shareholders.

The Company manages the capital structure in the context of economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares, or sell assets to reduce debt obligations.

For working capital and capital expenditure requirements, the Company primarily relies on internal cash generation and financial support of the parent company. There is a material uncertainty about the Company's ability to continue as going concern, see note 2 (i) for details regarding the going concern assumption.

24. Transactions with related parties

The Company's related parties include its majority shareholder, EPL. Amount due from / (to) related parties have been disclosed under respective receivable and payable balances. Related parties and their relationship with the Company are as follows:

Majority Shareholder
- Eastern Petroleum Limited

Wholly owned subsidiaries
- Spud Energy Pty Limited
- PetExPro Ltd.
- Frontier Oil and gas Holdings Limited
- Frontier Holdings Limited

Associated entity
- JS Bank Limited

Key management personnel

Key management personnel are those having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including any directors (whether executive or otherwise) of the Company. The Company's key management includes its Interim Chief Executive Officer, Chief Financial Officer and its directors. Transactions with related parties other than those which have been disclosed elsewhere in the financial statements are:

	December 31, 2016 US$	December 31, 2015 US$
Transactions with Majority Shareholder – EPL		
Balance payable at beginning of the year	10,175,454	10,284,720
Loan received during the year net of embedded derivative	-	1,200,000
Loan repaid during the year	(1,741,667)	(133,013)
Interest accrued on loan from shareholder	300,305	353,019
Exchange gain on retranslation of shareholder loan	467,544	(1,529,272)
Extinguishment of shareholder loan	(9,208,303)	-
Recognition of new shareholder loan at fair value	9,180,468	-
Interest for the year	256,900	-
Amount paid on behalf of EPL during the year	(5,858)	-
Balance payable at end of the year	**9,424,843**	**10,175,454**
Transactions with Associated entity– JS Bank Limited		
Old facilities		
Balance payable at beginning of the year	2,905,276	3,833,505
Loan received during the year	-	115,501
Interest accrued	11,970	332,369
Interest paid during the year	(62,363)	(332,447)
Principal repaid during the year	(2,886,550)	(985,557)
Exchange (gain) / loss on retranslation of loan	31,667	(58,095)
Balance payable at end of the year	**-**	**2,905,276**
Syndicated Credit Facility		
Balance payable at beginning of the period / year	-	-
Loan received during the period / year	4,698,213	-
Mark-up accrued during the period / year	397,923	-
Mark-up paid during the period / year	(275,609)	-
Exchange (gain) / loss on retranslation of loan	(50,998)	-
Balance payable at end of the period / year	**4,769,529**	**-**
Key management personnel compensation		
Management salaries and benefits	520,606	395,034
Management stock based compensation	-	1,597
Director's fees and compensation	165,377	117,286
	685,983	**513,917**

25. Principal subsidiaries

The Company had the following subsidiaries at December 31, 2016:

Name	Country of incorporation and place of business	Nature of business	Proportion of ordinary shares directly held by parent (%)
Jura Energy Corporation	Canada	Holding company	N/A
Spud Energy Pty Limited	Australia Pakistan	Oil and gas exploration and production company	100
Frontier Oil and Gas Holdings Limited	Mauritius	Investment holding company	100
PetExPro Ltd.	Bermuda	Intermediate holding company	100
Frontier Holdings Limited	Bermuda Pakistan	Oil and gas exploration and production company	100

26. Operating segment information

Management has determined the operating segments based on the information that is presented to the Company's board of directors for allocation of resources and assessment of performance. The Company is organized into two operating segments based on geography, namely oil and gas operations in Pakistan ("Pakistan") and corporate activities in Canada ("Canada").

The Pakistan segment derives its revenue primarily from the sale of petroleum products in Pakistan. During the year ended December 31, 2016, the Pakistan segment had three main customers, Sui Northern Gas Pipelines Limited ("SNGPL"), Engro Fertilizers Limited ("Engro") and Sui Southern Gas Company Limited ("SSGCL"), to whom all the gas from Badar, Reti, Maru and Maru South and Zarghun South is sold. SNGPL and SSGCL are state-owned entities and Engro is a large publicly-listed company. Percentage breakup of sales to SNGPL, Engro and SSGCL for the years ended December 31, 2016 and 2015 and trade receivables at December 31, 2016 and 2015 are as follows:

	December 31, 2016	December 31, 2015
Net sales		
SNGPL	5%	4%
Engro	15%	13%
SSGCL	79%	72%
Others	1%	1%
Trade receivables		
SNGPL	3%	2%
Engro	16%	6%
SSGCL	79%	91%
Others	2%	1%

The Canada segment does not have any revenue generating operations.

The Company's board of directors monitors the results of the above-mentioned segments for the purpose of making decisions about the resources to be allocated and for assessing performance based on historical results and the purpose of their existence. The segment information for the reportable segments is as follows:

	For the year ended December 31, 2016			For the year ended December 31, 2015		
	Canada	Pakistan	Consolidated	Canada	Pakistan	Consolidated
	-------------------------US$---------------------------					
Net revenue	-	5,461,477	5,461,477	-	8,626,569	8,626,569
Cost of production	-	(5,340,117)	(5,340,117)	-	(6,282,291)	(6,282,291)
Gross profit	**-**	**121,360**	**121,360**	**-**	**2,344,278**	**2,344,278**
General and administrative expenses	(1,092,726)	(4,975,563)	(6,068,289)	(610,948)	(2,880,498)	(3,491,446)

Net reversal / (impairment) of property, plant and equipment	-	13,022,162	13,022,162	-	(14,082,000)	(14,082,000)
Impairment of exploration and evaluation assets	-	(6,916,212)	(6,916,212)	-	-	-
Exploration and evaluation costs written off	-	(8,406)	(8,406)	-	(43,465)	(43,465)
Gain on extinguishment of shareholder loan	-	27,835	27,835	-	-	-
Operating profit / (loss)	**(1,092,726)**	**1,271,176**	**178,450**	**(610,948)**	**(14,661,685)**	**(15,272,633)**
Finance income / (costs)	(514,997)	(1,183,931)	(1,698,928)	(463,380)	(232,741)	(696,121)
Net profit / (loss) for the year	**(1,607,723)**	**87,245**	**(1,520,478)**	**(1,074,328)**	**(14,894,426)**	**(15,968,754)**
Additions during the year						
Property, plant and equipment	-	2,934,622	2,934,622	-	2,894,185	2,894,185
Exploration and evaluation assets	-	(205,178)	(205,178)	-	1,583,931	1,583,931

	As at December 31, 2016			**As at December 31, 2015**		
	Canada	**Pakistan**	**Consolidated**	**Canada**	**Pakistan**	**Consolidated**
			--------------------------US$----------------------------			
Segment assets	201,896	52,977,687	53,179,583	59,250	51,159,550	51,218,800
Segment liabilities	4,376,716	34,722,993	39,099,709	3,902,270	31,718,985	35,621,255

27. Subsequent events

Subsequent to year end, SEPL entered into a third Musharaka Agreement with Al Baraka under the Syndicated Credit Facility in the amount of PKR 170 million (approximately US$ 1.62 million) pursuant to which the facility amount was increased from PKR 1,060 million (approximately US$ 10.11 million) to PKR 1,230 million (approximately US$ 11.73 million).