

Range Energy Resources Inc.

Consolidated Financial Statements

As at and for the years ended December 31, 2016 and 2015

Expressed in Canadian dollars



INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Range Energy Resources Inc.

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which indicates the existence of a material uncertainty that may cast significant doubt on the ability of Range Energy Resources Inc. to continue as a going concern.

Manning Elliott LLP

CHARTERED PROFESSIONAL ACCOUNTANTS
Vancouver, British Columbia
April 25, 2017

Range Energy Resources Inc.
Consolidated Statements of Financial Position

Expressed in Canadian Dollars

	December 31, 2016	December 31, 2015
Current assets		
Cash	\$ 63,096	\$ 66,815
Loan receivable (note 5)	1	1
Prepaid expenses	46,601	36,292
	109,698	103,108
Non-current assets		
Property and equipment (note 6)	257	367
Long-term investment (note 7)	59,695,787	49,779,641
	59,696,044	49,780,008
Total assets	\$ 59,805,742	\$ 49,883,116
Current liabilities		
Accounts payable and accrued liabilities	\$ 180,301	\$ 465,509
Loans payable (Note 9)	4,372,764	-
	4,553,065	465,509
Equity		
Share capital (note 8(a) and (b))	49,791,768	44,748,640
Reserves (note 8(c))	21,660,054	20,388,140
Deficit	(16,199,145)	(15,719,173)
	55,252,677	49,417,607
Total liabilities and equity	\$ 59,805,742	\$ 49,883,116

Nature of operations and going concern (note 1)
 Commitment (note 11)
 Subsequent events (note 16)

Approved on Behalf of the Board of Directors:

(signed) Toufic Chahine

(signed) Allan Bezanson

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

Range Energy Resources Inc.
Consolidated Statements of Changes in Equity

Expressed in Canadian Dollars

	Share capital		Reserves		Deficit	Total equity
	Number of shares	Amount	Warrants	Contributed surplus		
Balance - December 31, 2014	579,969,566	\$ 41,395,590	\$ 8,388,744	\$ 10,945,548	\$ (14,410,612)	\$ 46,319,270
Private placements (note 8(b) and (d))	101,248,075	3,366,012	927,303	-	-	4,293,315
Stock-based compensation (note 8(e))	-	-	-	126,498	-	126,498
Warrants expired (note 8(d))	-	-	(1,552,587)	1,552,587	-	-
Capital raising costs (note 8(d))	-	(12,962)	47	-	-	(12,915)
Net loss for the year	-	-	-	-	(1,308,561)	(1,308,561)
Balance - December 31, 2015	681,217,641	44,748,640	7,763,507	12,624,633	(15,719,173)	49,417,607
Private placements (note 8(b) and (d))	175,008,336	5,062,703	1,269,464	-	-	6,332,167
Warrants expired (note 8(d))	-	-	(47)	47	-	-
Capital raising costs (note 8(d))	-	(19,575)	2,450	-	-	(17,125)
Net loss for the year	-	-	-	-	(479,972)	(479,972)
Balance - December 31, 2016	856,225,977	49,791,768	9,035,374	12,624,680	(16,199,145)	55,252,677

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

Range Energy Resources Inc.
Consolidated Statements of Comprehensive Loss

Expressed in Canadian Dollars

	For the years ended December 31,	
	2016	2015
Expenses		
Audit and related fees	\$ 33,425	\$ 26,185
Consulting (note 10)	78,394	97,446
Depreciation (note 6)	110	158
Directors fees (note 10)	-	66,922
General and administrative (note 10)	90,367	77,220
Interest on loan payable	115,546	-
Legal fees	20,557	826,886
Management fees (note 10)	115,474	110,171
Stock-based compensation (note 8(e) and 10)	-	126,498
Transfer agent and filing fees	21,277	21,280
Travel and promotion	-	7,060
Loss before other items	(475,150)	(1,359,826)
Foreign exchange gain or (loss)	(4,822)	56,152
Write-down of amounts receivable	-	(4,887)
Net loss and comprehensive loss for year	\$ (479,972)	\$ (1,308,561)
Loss per share - basic and diluted	\$ (0.00)	\$ (0.00)
Weighted average number of common shares outstanding - basic and diluted	821,488,037	602,488,003

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

Range Energy Resources Inc.
Consolidated Statements of Cash Flows

Expressed in Canadian Dollars

	For the years ended December 31,	
	2016	2015
Operating activities		
Net loss for the year	\$ (479,972)	\$ (1,308,561)
Depreciation	110	158
Accrued interest	115,546	-
Stock-based compensation	-	126,498
Write-down of amounts receivable	-	4,887
	(364,316)	(1,177,018)
Changes in non cash working capital items:		
Amounts receivable	-	3,227,138
Prepaid expenses	(10,309)	(3,929)
Accounts payable and accrued liabilities	(285,208)	119,673
Cash provided by (used in) operating activities	(659,833)	2,165,864
Investing activities		
Cash call payments to New Age Al Zarooni 2 Limited (note 7)	(9,916,146)	(7,229,865)
Cash used in investing activities	(9,916,146)	(7,229,865)
Financing activities		
Loans received (note 9)	4,257,218	-
Private placements (note 8(b))	6,332,167	4,293,315
Capital raising costs	(17,125)	(12,915)
Cash provided by financing activities	10,572,260	4,280,400
Decrease in cash	(3,719)	(783,601)
Cash - beginning of year	66,815	850,416
Cash - end of year	\$ 63,096	\$ 66,815

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

Range Energy Resources Inc.
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015
(Expressed in Canadian Dollars)

1. Nature of operations and going concern

Range Energy Resources Inc. (the "Company") was incorporated under the laws of British Columbia, Canada on March 1, 2005. On October 24, 2006, the Company's common shares were listed and called for trading on the Canadian Securities Exchange ("CSE") and its current symbol is RGO. On February 12, 2007, the Company listed on the Frankfurt Stock Exchange. The Company's corporate head office is located at Suite 1128, 789 West Pender Street, Vancouver, BC V6C 2V6. The Company is a development stage company engaged in investing in entities involved in the acquisition, exploration and development of oil and gas properties. As at December 31, 2016, the Company's principal asset is an indirect investment in an oil and gas property referred to as the Khalakan Block, which is domiciled in the Kurdistan Region of Iraq.

These consolidated financial statements are prepared on a going concern basis, which contemplates that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. During the year ended December 31, 2016, the Company incurred a net loss totalling \$479,972. As at December 31, 2016, the Company has a working capital deficiency of \$4,443,367 (December 31, 2015 - deficiency of \$362,401) and an accumulated deficit of \$16,199,145. There is a material uncertainty related to these conditions that may cast significant doubt on the Company's ability to continue as a going concern and therefore it may be unable to realize its assets and discharge its liabilities in the normal course of business.

The ability of the Company to meet its commitments and ongoing operating expenses will depend upon the following:

- The ability to raise further funds through the issue of equity or debt financing; and,
- The sale of assets in the ordinary course of business.

Although the Company has been successful in obtaining the necessary financing to continue operations in the past, there can be no assurance that it will be able to continue to do so in the future.

If the going concern assumption were not appropriate for these consolidated financial statements, then adjustments would be necessary in the carrying values of assets, liabilities, the reported income and expenses and the consolidated statement of financial position classifications used. Such adjustments could be material.

Based on the financial position at December 31, 2016, available funds are not considered adequate to meet requirements for fiscal 2017 based on budgeted expenditures for operations and project exploration and investigation. To meet working capital requirements, the Company will have to access financial resources through equity placements or by incurring debt. There can be no assurances that such funds will be available and/or on terms acceptable by the Company.

2. Statement of compliance

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Committee ("IFRIC").

These consolidated financial statements have been authorized for release by the Company's Board of Directors on April 25, 2017.

3. Significant accounting policies

(a) Basis of presentation

The consolidated financial statements have been prepared on an accrual basis and are on a historical cost basis, except for certain financial instruments, which are measured at fair value. The preparation of consolidated financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant are disclosed in Note 4.

These consolidated financial statements are prepared in Canadian dollars. The functional currency of the Company and its subsidiaries is the Canadian dollar.

(b) Consolidation

These consolidated financial statements consolidate the accounts of the Company and its wholly-owned subsidiary, Faucon Hec Resources Ltd. (formerly Range Oil & Gas (North Iraq) Inc.). All intercompany transactions and balances are eliminated on consolidation. Faucon Hec Resources Ltd. had no transactions or activity for the years ended December 31, 2016 and 2015.

(c) Foreign currency transactions

Transactions in currencies other than the functional currency of the reporting entity are recorded at rates of exchange prevailing on the dates of such transactions. Monetary assets and liabilities that are denominated in currencies other than the functional currency are translated at rates prevailing at the end of each reporting period. Non-monetary items that are measured in terms of historical cost in the foreign currency are not re-translated.

(d) Cash and cash equivalents

Cash and cash equivalents includes cash on deposit and term deposits with banks with maturities of 90 days or less at inception. The Company does not have any cash equivalents as at December 31, 2016 and 2015.

(e) Property and equipment

Property and equipment are stated at cost of acquisition less accumulated depreciation and impairment losses. Depreciation is provided for on a declining balance basis at rates calculated to write off the cost less estimated residual value of each asset over its expected useful life. The residual value is the estimated amount that would currently be obtained from disposal of the asset if the asset was already of the age and in the condition expected at the end of its useful life.

Computer hardware and software are being depreciated at the rate of 30% per annum on a declining balance basis.

The carrying value of tangible capital assets is assessed annually and any impairment charged to the consolidated statement of comprehensive loss. The expected useful life of tangible capital assets is reviewed annually.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in comprehensive loss in the year the item is derecognized.

3. Significant accounting policies – continued

(f) Investments

Investments not subject to significant influence are designated as available-for-sale and accounted for at fair value. In limited circumstances, cost may be an appropriate estimate of the fair value of an investment with no quoted price in an active market. Transaction costs related to the acquisition of investments are recognized as expenses in the consolidated statement of comprehensive loss when incurred.

(g) Impairment of a non-financial asset

At each consolidated statement of financial position date, or when impairment indicators are evident, a formal estimate of recoverable amount is performed and an impairment loss is recognized to the extent that the carrying amount exceeds the recoverable amount. The recoverable amount of an asset or cash generating group of assets is measured at the higher of the fair market value less costs to sell and the value in use.

Previously recognized impairment losses are reversed in subsequent periods if the conditions giving rise to impairment reverse.

(h) Share-based payment transactions

The Company grants stock options to directors, officers, employees and service providers. Each tranche in an award is considered a separate award with its own vesting period and fair values. The Company applies the fair-value method of accounting for share-based payments. The fair value is calculated using the Black-Scholes Option Pricing Model (“Black-Scholes”).

Share-based payments for employees and others providing similar services are determined based on the grant date fair value. Share-based payments for non-employees is determined based on the fair value of the goods or services received or if the fair value of the services received cannot be reliably measured, the options granted are measured at the date on which the Company obtains the goods or services.

Share-based compensation expense is recognized over each tranche's vesting period in the consolidated statement of comprehensive loss, or capitalized as appropriate, based on the number of awards that vest less the estimated forfeitures. The number of forfeitures likely to occur is estimated on the grant date. If stock options are ultimately exercised, the applicable amounts of contributed surplus are transferred to share capital.

(i) Share capital

Proceeds from the exercise of stock options and warrants, in addition to the estimated fair value attributable to these equity instruments, are recorded as share capital when exercised. In a unit offering, the Company prorates the proceeds between common shares and warrants using the relative fair value method. Share issuance costs are recorded as a reduction of share capital.

(j) Income taxes

Income tax comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

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

3. Significant accounting policies – continued

(j) Income taxes (continued)

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent it is no longer probable that the related tax benefit will be realized.

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

Deferred tax is provided on temporary differences arising between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes using the liability method. Deferred tax is not recognized for temporary differences which arise on the initial recognition of assets or liabilities in a transaction that is not a business combination that affect neither accounting nor taxable loss. Deferred tax is also not recognized for temporary differences relating to investments in subsidiaries to the extent that it is probable they will not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using rates enacted or substantively enacted at the consolidated statement of financial position date.

(k) Financial assets

The Company classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

Fair value through profit or loss (FVTPL) – This category comprises derivatives, or assets acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the consolidated statement of financial position at fair value with changes in fair value recognized in the consolidated statement of comprehensive loss.

Loans and receivables – These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are carried at amortized cost using the effective interest method less any allowance for impairment. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization period.

Held-to-maturity investments – These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated further cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in the consolidated statement of comprehensive loss.

Available-for-sale – Non-derivative financial assets not included in one of the above categories are classified as available-for-sale. They are carried at fair value with changes in fair value recognized directly in equity. Where a decline in the fair value of an available-for-sale asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognized in the consolidated statement of comprehensive loss.

All financial assets are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is objective evidence that a financial asset or group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which is described above.

3. Significant accounting policies – continued

(l) Financial liabilities

Financial liabilities are recognized when the Company becomes a party to the contractual terms of the instrument. Financial liabilities are derecognized when they are extinguished, discharged, cancelled or expired.

Financial liabilities at FVTPL – These financial liabilities are acquired or incurred principally for the purpose of selling or repurchasing in the near term. They are measured at fair value and changes therein are recognized in profit and loss.

Other financial liabilities – These financial liabilities are recognized initially at fair value plus any directly attributable transaction costs, and are subsequently measured at amortized cost using the effective interest method. The Company classifies its financial liabilities as other financial liabilities.

(m) Earnings (loss) per share

The calculation of earnings (loss) per share is based on the weighted average number of common shares outstanding in the period. Diluted earnings (loss) per share is calculated whereby all “in the money” stock options and warrants are assumed to have been exercised at the beginning of the period and the proceeds from the exercise are assumed to have been used to purchase common shares at the average market price during the period. If the Company incurs net losses during the period, basic and diluted loss per share are the same as the exercise of options and warrants is considered to be anti-dilutive.

(n) Segment reporting

The Company operates in a single reportable operating segment – investing in entities involved in the acquisition, exploration and development of oil and gas properties.

(o) Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

(p) Accounting standards adopted during the year

The Company did not adopt any new accounting standards during the year.

3. Significant accounting policies – continued

(q) Accounting standards and amendments issued but not yet adopted

Standards issued, but not yet effective, up to the date of issuance of the Company's consolidated financial statements are listed below. This listing of standards and interpretations issued are those that the Company reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Company intends to adopt these standards when they become effective.

New accounting standards effective for annual periods on or after January 1, 2018:

IFRS 9 – Financial Instruments

In November 2009, as part of the IASB project to replace IAS 39 Financial Instruments: Recognition and Measurement, the IASB issued the first phase of IFRS 9 Financial Instruments, that introduces new requirements for the classification and measurement of financial assets. The standard was revised in October 2010 to include requirements regarding classification and measurement of financial liabilities. In November 2013 the standard was revised to add the new general hedge accounting requirements. The standard was finalized in July 2014 and was revised to add a new expected loss impairment model and amends the classification and measurement model for financial assets by adding a new fair value through other comprehensive income (FVOTCI) category for certain debt instruments and additional guidance on how to apply the business model and contractual cash flow characteristics test.

IFRS 15 – Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 – Revenue from Contracts with Customers ("IFRS 15") which supersedes IAS 11 – Construction Contracts, IAS 18 – Revenue, IFRIC 13 – Customer Loyalty Programs, IFRIC 15 – Agreements for the Construction of Real Estate, IFRIC 18 – Transfers of Assets from Customers, and SIC 31 – Revenue – Barter Transactions Involving Advertising Services. IFRS 15 establishes a comprehensive five-step framework for the timing and measurement of revenue recognition.

Management anticipates that this standard will be adopted in the Company's consolidated financial statements for the period beginning January 1, 2018. The Company is currently evaluating the impact of the adoption of this standard on its consolidated financial statements.

The standard is effective for annual periods beginning on or after January 1, 2019:

IFRS 16 – Leases

In June 2016, the IASB issued IFRS 16 – Leases. IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases, with the objective of ensuring that lessees and lessors provide relevant information that faithfully represents those transactions. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. However, lessees are no longer classifying leases as either operating leases or finance leases as it is required by IAS 17. The standard is effective for annual periods beginning on or after January 1, 2019.

The extent of the impact of adoption of these standards and interpretations on the consolidated financial statements of the Company has not been determined.

4. Significant accounting estimates and judgments

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the consolidated financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in future periods affected.

The Company has identified the following areas where significant judgments, estimates and assumptions are made, where actual results may differ from these estimates and this may materially affect the Company's financial results or consolidated statement of financial position in future periods. Significant areas requiring management judgement include:

Going concern

Assessment of the Company's ability to continue as a going concern requires estimates of future cash flows and includes the consideration of other factors, the outcomes of which are uncertain.

Utilization of deferred income tax assets

Deferred tax assets require management judgement in order to determine the amounts to be recognized and the likelihood that there will be future taxable income for which the deferred tax assets can be utilized. This includes assessing the timing of the reversal of temporary differences to which deferred income tax rates are applied.

Impairment assessments of long-term investment and loan receivable

Application of the factors of impairment to the facts and circumstances of the long-term investment and loan receivable requires a significant amount of judgement.

Significant areas requiring the use of management estimates include the valuation of loan receivable, valuation of the long-term investment, valuation of warrants and share-based payments including determination of the volatility assumption in the Black-Scholes Option Pricing Model, recognition of deferred income tax assets and deferred income tax rates.

5. Loan receivable

On March 3, 2012, the Company entered into a Letter of Intent ("LOI") with Blackstairs Energy PLC ("Blackstairs") whereby the Company proposed to acquire 100% of the issued share capital of Blackstairs subject to a number of conditions set out in the LOI, including, satisfactory completion by the Company of its due diligence review of Blackstairs on or before April 30, 2012, entering into a Definitive Agreement and obtaining requisite regulatory and shareholders' approvals, if required. Under the terms of the LOI, the Company loaned Blackstairs US\$500,000 for working capital purposes. As security for this loan, certain shares in Blackstairs were pledged to the Company. As the structure of a Definitive Agreement could not be agreed upon, the LOI was terminated on March 29, 2012 and as such, the loan became repayable within 180 days from April 30, 2012, bearing interest at the rate of US prime plus 1.5% per annum compounded monthly until repayment.

Blackstairs failed to repay the loan when due. The Company subsequently took the steps necessary to cause the pledged shares to be transferred to the Company and registered in the name of the Company on Blackstairs' share register.

By letter dated December 22, 2014, the Company was informed that Deloitte & Touche was appointed liquidator of Blackstairs.

Range Energy Resources Inc.
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015
(Expressed in Canadian Dollars)

5. Loan receivable – continued

On December 21, 2015, the annual general meeting of Blackstairs’s creditors was held. The Blackstairs liquidator disclosed at that meeting that the liquidation process is continuing. The Company continues to be in contact with the Blackstairs liquidator. The Company continues to consider what, if any, actions it may take to obtain recovery out of Blackstairs’s assets of all or some portion of the outstanding principal of, and accrued and unpaid interest on, the loan.

As the fair value of the pledged shares is indeterminable, the loan receivable was written down by \$575,347 to a nominal amount during the year ended December 31, 2013. As at December 31, 2016, total principal of US\$500,000 and accrued interest of US\$40,944, is due to the Company.

6. Property and equipment

		Cost	Computer hardware and software Accumulated depreciation	Net book value
Balance – December 31, 2014	\$	4,639	\$ (4,114)	\$ 525
Depreciation		-	(158)	(158)
Balance – December 31, 2015	\$	4,639	\$ (4,272)	\$ 367
Depreciation		-	(110)	(110)
Balance – December 31, 2016	\$	4,639	\$ (4,382)	\$ 257

7. Long-term investment

On November 6, 2009, the Company entered into a share acquisition agreement with a privately held company (the “Vendor”) under which the Company purchased 49.9% of the common shares of New Age Al Zarooni 2 Limited (“NAAZ2”), a company domiciled in Jersey, Channel Islands. The consideration paid for the shares was as follows:

- (a) \$16,862,774 (US\$16,367,000) cash;
- (b) 2,000,000 common shares of the Company with an estimated fair value of \$400,000 measured on the date of issuance;
- (c) 1,500,000 warrants to purchase 1,500,000 common shares of the Company exercisable for a term of five years at a price of \$0.30 per share, valued at \$509,293 measured on the date of issuance using the Black-Scholes Option-Pricing Model. These warrants expired unexercised; and,
- (d) \$46,728 (US\$44,000) of expenses reimbursed to the Vendor.

The transaction closed on November 17, 2009. In connection with the transaction, the Company issued 3,250,000 common shares of the Company for corporate advisory services to unrelated third parties. The estimated fair value of these shares was \$650,000 measured on the date of issuance and recorded as transaction costs in the consolidated statement of operations and comprehensive loss during the year ended December 31, 2009.

NAAZ2 owns 50% of the common shares of Gas Plus Khalakan Limited (“GPK”), a company domiciled in Jersey, Channel Islands. GPK holds an 80% interest in the Khalakan production sharing contract (“PSC”) for an oil and gas resource property (“Khalakan Block”) and the Kurdistan Regional Government of Iraq holds the remaining 20% interest. The Khalakan Block consists of two concessions, Blocks 28 and 29 (sometimes referred to as Blocks 6 and 7) and originally comprised 624 square kilometres located in the central part of the Kurdistan Region of Iraq.

Under the GPK shareholders agreement, a company beneficially owned by a third party is entitled to a 40% interest in the net profits (“NPI”) of the project. At any time, the 40% NPI may be exchanged for 40% of the issued common shares of GPK for a price equal to US\$1 per common share. In addition, a 3.5% interest in the net profits is payable to the current operator under a management services agreement.

7. Long-term investment – continued

The NAAZ2 shareholders agreement requires each shareholder to fund its cash calls based on its ownership interest. If a shareholder fails to fund its portion of these cash calls, the non-defaulting shareholder has the option to fund any shortfalls and thereby increase its relative interest in NAAZ2, and in turn its indirect interest in GPK. Should the non-defaulting shareholder decline to fund any shortfalls, a buy-out event may be triggered under which the defaulting party's interest may be purchased by the non-defaulting party for a price pre-determined by a formula in the shareholders agreement. During the year ended December 31, 2016, the Company funded cash calls made by NAAZ2 totalling \$9,916,146 (US \$7,445,080) (December 31, 2015 - \$7,229,865 (US \$5,694,089)).

The GPK shareholders agreement requires each shareholder to fund its proportional share of cash calls based on its shareholdings. If a shareholder fails to fund its portion of these cash calls, the non-defaulting shareholder will have the option to fund any shortfalls and thereby increase its relative interest in GPK. Should the non-defaulting shareholder decline to fund any shortfalls, a buy-out event may be triggered under which the defaulting party's interest may be purchased by the non-defaulting party for a price pre-determined by a formula in the shareholders agreement.

8. Equity

(a) Authorized

The authorized share capital of the Company consists of an unlimited number of shares without par value and an unlimited number of preferred shares, issuable in series. The preferred share rights and restrictions may be set by the Company's directors upon issue.

(b) Private placements

On July 14, 2015, the Company closed a non-brokered private placement of 17,800,000 units at \$0.05 per unit for gross proceeds of \$890,000. Each unit is comprised of one common share and one common share purchase warrant entitling the holder to acquire an additional common share at a price of \$0.05 per share up to July 14, 2020.

On August 20, 2015, the Company closed a non-brokered private placement of 6,545,500 units at \$0.05 per unit for gross proceeds of \$327,274. Each unit is comprised of one common share and one common share purchase warrant entitling the holder to acquire one additional common share at a price of \$0.05 per share up to August 20, 2020.

On October 7, 2015, the Company closed the first tranche of a non-brokered private placement of 29,750,000 units at \$0.04 per unit for gross proceeds of \$1,190,000. Each unit is comprised of one common share and one common share purchase warrant entitling the holder to acquire one additional common share at a price of \$0.05 per share up to October 7, 2020.

On October 30, 2015, the Company closed the second tranche of a non-brokered private placement of 16,403,750 units at \$0.04 per unit for gross proceeds of \$656,150. Each unit is comprised of one common share and one common share purchase warrant entitling the holder to acquire one additional common share at a price of \$0.05 per share up to October 30, 2020.

8. Equity – continued

(b) Private placements - continued

On November 6, 2015, the Company closed the third tranche of a non-brokered private placement of 10,727,500 units at \$0.04 per unit for gross proceeds of \$429,100. Each unit is comprised of one common share and one common share purchase warrant entitling the holder to acquire one additional common share at a price of \$0.05 per share up to November 6, 2020. The Company paid a finders' fee of \$5,000 and issued 125,000 finders' warrants with an estimated fair value of \$34, which are included in the \$12,962 capital raising costs on the consolidated statement of changes in equity. The fair value of warrants issued has been included in warrants on the consolidated statement of changes in equity. Each finder's warrant entitles the finder to purchase one common share for \$0.05 on or before November 6, 2016.

On December 18, 2015, the Company closed the first tranche of a non-brokered private placement of 14,840,375 units at \$0.04 per unit for gross proceeds of \$593,553. Each unit is comprised of one common share and one common share purchase warrant entitling the holder to acquire one additional common share at a price of \$0.05 per share up to December 18, 2020.

On December 29, 2015, the Company closed the second tranche of a non-brokered private placement of 5,180,950 units at \$0.04 per unit for gross proceeds of \$207,238. Each unit is comprised of one common share and one common share purchase warrant entitling the holder to acquire one additional common share at a price of \$0.05 per share up to December 29, 2020. The Company paid a finders' fee of \$2,000 and issued 50,000 finders' warrants with an estimated fair value of \$13, which are included in the \$12,962 capital raising costs on the consolidated statement of changes in equity. The fair value of warrants issued has been included in warrants on the consolidated statement of changes in equity. Each finder's warrant entitles the finder to purchase one common share for \$0.05 on or before December 29, 2016.

On January 15, 2016, the Company closed the third tranche of a non-brokered private placement which was previously announced during the year ended December 31, 2015 for a total of 41,375,000 units of the Company at a price of \$0.04 per unit for gross proceeds of \$1,655,000. Each unit consists of one common share and one transferrable share purchase warrant. Each warrant entitles the holder thereof to purchase one additional common share of the Company on or before January 15, 2021 at a price of \$0.05 per common share. The Company paid a finders' fee of \$4,000 and issued 100,000 finders' warrants with a fair value of \$898. Each finder's warrant entitles the finder to purchase one common share of the Company on or before January 15, 2017 at a price of \$0.05 per common share.

On February 19, 2016, the Company closed the first tranche of a non-brokered private placement for a total of 29,700,000 units of the Company at a price of \$0.035 per unit for gross proceeds of \$1,039,500. Each unit consists of one common share and one transferrable share purchase warrant. Each warrant entitles the holder thereof to purchase one additional common share of the Company on or before February 19, 2021 at a price of \$0.05 per common share.

On March 1, 2016, the Company closed the second tranche of a non-brokered private placement for a total of 6,247,908 units of the Company at a price of \$0.035 per unit for gross proceeds of \$218,677. Each unit consists of one common share and one transferrable share purchase warrant. Each warrant entitles the holder thereof to purchase one additional common share of the Company on or before March 1, 2021 at a price of \$0.05 per common share. The Company paid a finders' fee of \$2,625 and issued 75,000 finders' warrants with a fair value of \$427. Each finder's warrant entitles the finder to purchase one common share of the Company on or before March 1, 2017 at a price of \$0.05 per common share.

On March 14, 2016, the Company closed the third tranche of a non-brokered private placement for a total of 42,029,728 units of the Company at a price of \$0.035 per unit for gross proceeds of \$1,471,030. Each unit consists of one common share and one transferrable share purchase warrant. Each warrant entitles the holder thereof to purchase one additional common share of the Company on or before March 14, 2021 at a price of \$0.05 per common share.

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8. Equity – continued

(b) Private placements - continued

On April 15, 2016, the Company closed the first tranche of a non-brokered private placement for a total of 18,836,000 units of the Company at a price of \$0.035 per unit for gross proceeds of \$659,260. Each unit consists of one common share and one transferrable share purchase warrant. Each warrant entitles the holder thereof to purchase one additional common share of the Company on or before April 15, 2021 at a price of \$0.05 per common share. The Company paid a finders' fee of \$10,500 and issued 300,000 finders' warrants with a fair value of \$1,125. Each finder's warrant entitles the finder to purchase one common share of the Company on or before April 15, 2017 at a price of \$0.05 per common share.

On May 20, 2016, the Company closed the second and final tranche of a non-brokered private placement for a total of 36,820,000 units of the Company at a price of \$0.035 per unit for gross proceeds of \$1,288,700. Each unit consists of one common share and one transferrable share purchase warrant. Each warrant entitles the holder thereof to purchase one additional common share of the Company on or before May 20, 2021 at a price of \$0.05 per common share.

The Company incurred \$nil (2015 – \$5,915) in legal fees which is included in \$19,575 (2015 - \$12,692) capital raising costs on the consolidated statement of changes in equity.

(c) Reserves

Reserves consist of share purchase warrants and the accumulated fair value of common share stock options recognized as share-based compensation.

(d) Warrants

	December 31, 2016		December 31, 2015	
	Number of warrants	Amount	Number of warrants	Amount
Opening balance	348,214,801	\$ 7,763,507	335,244,948	\$ 8,388,744
Warrants issued	175,483,336	1,271,914	101,423,075	927,350
Warrants expired	(175,000)	(47)	(88,453,222)	(1,552,587)
Closing balance	523,523,137	\$ 9,035,374	348,214,801	\$ 7,763,507

During the year ended December 31, 2016, the fair value of the 175,483,336 warrants issued (December 31, 2015: 101,423,075) in connection with the unit private placements totalled \$1,271,914 (December 31, 2015: \$927,350), which includes \$2,450 in finders' warrants (December 31, 2015: \$47). The fair value of warrants issued was recognized as warrants on the consolidated statement of changes in equity.

During the year ended December 31, 2016, 175,000 warrants expired (December 31: 2015: 88,453,222) and \$47 (December 31, 2015: \$1,552,587) was transferred from warrants to contributed surplus on the consolidated statement of changes in equity.

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8. Equity – continued

(d) Warrants (continued)

At December 31, 2016, warrants outstanding are as follows:

Number of warrants outstanding and exercisable	Exercise price	Fair value of warrants	Expiry dates
100,000	\$0.05	\$ 898	January 15, 2017
75,000	\$0.05	427	March 1, 2017
300,000	\$0.05	1,125	April 15, 2017
122,000,000	\$0.05	3,653,849	November 1, 2018
29,791,726	\$0.07	816,889	May 21, 2019
25,000,000	\$0.07	623,215	June 19, 2019
20,000,000	\$0.055	497,823	July 17, 2019
20,000,000	\$0.05	497,882	October 20, 2019
30,000,000	\$0.05	746,500	November 14, 2019
17,800,000	\$0.05	145,935	July 14, 2020
6,545,500	\$0.05	73,977	August 20, 2020
29,750,000	\$0.05	322,757	October 7, 2020
16,403,750	\$0.05	149,318	October 30, 2020
10,727,500	\$0.05	98,166	November 6, 2020
14,840,375	\$0.05	101,656	December 18, 2020
5,180,950	\$0.05	35,493	December 29, 2020
41,375,000	\$0.05	371,735	January 15, 2021
29,700,000	\$0.05	169,046	February 19, 2021
6,247,908	\$0.05	35,562	March 1, 2021
42,029,428	\$0.05	331,748	March 14, 2021
18,836,000	\$0.05	149,367	April 15, 2021
36,820,000	\$0.05	212,006	May 20, 2021
523,523,137		\$ 9,035,374	

As at December 31, 2016, the weighted average exercise price of warrants exercisable was \$0.05 and the weighted average remaining contractual life was 3.19 years.

Black-Scholes Option Pricing Model requires the use of highly subjective estimates and assumptions including the expected stock price volatility. Changes in the underlying assumptions can materially affect the fair value estimates. The fair value of the warrants issued during the period was calculated using the Black-Scholes Option Pricing Model with the following weighted average assumptions and resulting grant date fair value:

Weighted average assumptions for the warrants issued during the years ended:	December 31, 2016	December 31, 2015
Risk-free interest rate	0.70%	0.89%
Expected dividend yield	0%	0%
Expected warrant life	4.99 years	4.99 years
Expected stock price volatility	50%	50%
Expected forfeiture rate	-	-

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8. Equity – continued

(d) Warrants (continued)

The weighted average grant date fair value of warrants issued during the year ended December 31, 2016 was \$0.01 per warrant (December 31, 2015: \$0.01 per warrant).

(e) Stock options

The Company adopted the 2015 Stock Option Incentive Plan (the “Plan”) that was approved by the shareholders on July 3, 2015. The aggregate number of shares of the Company’s share capital issuable pursuant to options granted under the Plan may not exceed 86,995,435 common shares. Options granted under the Plan may have a maximum term of 10 years. The exercise price of options granted under the Plan shall be determined by the Company’s directors, provided that such price shall not be lower than the closing share price on the day before the grant date less the applicable discount permitted under CSE policies. Stock options granted under the Plan may be subject to vesting terms that are set at the discretion of the directors at the time of grant.

The following table summarizes stock option activity during the year ended December 31, 2016 and the year ended December 31, 2015:

	December 31, 2016		December 31, 2015	
	Number of options	Weighted average exercise price of options exercisable	Number of options	Weighted average exercise price of options exercisable
Opening balance	12,250,000	\$0.12	6,000,000	\$0.27
Options granted	-	-	10,250,000	\$0.10
Options expired	-	-	(4,000,000)	\$0.30
Closing balance	12,250,000	\$0.12	12,250,000	\$0.12

During the year ended December 31, 2015 the Company granted 10,250,000 stock options to consultants, directors and officers of the Company. The options were exercisable for \$0.10 per share until September 11, 2020, and vested on the grant date

The fair value of the stock options granted during the year ended December 31, 2015 was \$126,498 and was included as share-based compensation on the consolidated statement of comprehensive loss. These stock options were valued using the Black-Scholes Option Pricing Model, using the following assumptions:

Stock option term	Volatility	Dividend yield	Risk-free interest rate	Options issued	Fair value
5 years	50%	0%	0.79%	10,250,000	\$126,498
				10,250,000	\$126,498

At December 31, 2016, stock options outstanding are as follows:

Number of options outstanding and exercisable	Exercise prices	Expiry date
2,000,000	\$0.20	February 28, 2017
10,250,000	\$0.10	September 11, 2020
12,250,000		

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9. Loans payable

During the year ended December 31, 2016, the Company received four unsecured loans in the aggregate principal amount of \$4,257,218 from a related party Gulf LNG America LLC, which holds 71.02% of the Company's issued and outstanding common shares ("Gulf"). Each of the four loans is interest bearing at a rate of 7% per annum. Per the amended agreements, the first three loans, together with all accrued and unpaid interest, were due on September 26, 2016. Per the original agreement, the fourth loan, together with all accrued and unpaid interest, was due on December 23, 2016. The Company was unable to repay any of the loans by their respective due dates. As a result, the Company is in default on each loan and the overdue amount of the each loan now bears interest at 9% per annum from the date of such non-payment, until such amount is paid in full (Note 16(f)).

During the year ended December 31, 2016, the Company accrued interest expense of \$115,546 related to these loans.

10. Related party transactions

Key management personnel are those persons that have the authority and responsibility for planning, directing and controlling the activities of the Company directly or indirectly. Key management personnel include the Company's directors and members of the senior management group.

The Company entered into a corporate management agreement for accounting services with a company controlled by the Chief Financial Officer of the Company (Note 11).

Details of key management personnel compensation are as follows:

Year ended December 31,	2016	2015
Services provided:		
Accounting fees	\$ 2,625	\$ 10,185
Consulting fees	-	17,565
Directors fees	-	66,922
Management fees	115,474	110,171
Rent and storage	12,600	12,600
Share-based compensation	-	101,737
Key management personnel compensation	\$ 130,699	\$ 319,181

As at	December 31, 2016	December 31, 2015
Balances payable to key management personnel	\$ 97,808	\$ 247,698

** The amount payable to key management personnel is included in accounts payable and accrued liabilities on the consolidated statements of financial position.

11. Commitment

The Company is party to a corporate management and accounting services agreement which automatically renewed for additional 12 months until December 31, 2017 (Note 10). The future minimum payments are \$114,000 for the year ending December 31, 2017.

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12. Segmented information

The Company's operations comprise one reportable segment. The carrying value of the Company's non-current assets on a country-by-country basis is as follows:

	December 31, 2016			December 31, 2015		
	Canada	Channel Islands	Total	Canada	Channel Islands	Total
Property and equipment	\$ 257	\$ -	\$ 257	\$ 367	\$ -	\$ 367
Long-term investment	-	59,695,787	59,695,787	-	49,779,641	49,779,641
Total	\$ 257	\$ 59,695,787	\$ 59,696,044	\$ 367	\$ 49,779,641	\$ 49,780,008

13. Financial instruments

The Company's financial instruments include cash, loan receivable, long-term investment and accounts payable. The carrying value of cash, amounts receivable, accounts payable and loans payable as presented in these consolidated financial statements are reasonable estimates of fair values due to the relatively short periods to maturity and the terms of these instruments. Long-term investment does not have a reliably measurable fair value as it does not have a quoted market price in an active market.

Financial instruments must be classified at one of three levels within a fair value hierarchy according to the relative reliability of the inputs used to estimate their values. The three levels of the hierarchy are as follows:

- Level 1: Unadjusted quoted prices in active markets for identical assets and liabilities;
- Level 2: Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and,
- Level 3: Inputs that are not based on observable market data.

The Company's financial instruments have been classified as follows:

Financial instrument	Classification	Fair value hierarchy
Cash	Financial assets held-for-trading	Level 1
Loan receivable	Loans and receivables	n/a
Long-term investment	Available-for-sale	n/a
Accounts payable	Other financial liabilities	n/a
Loans payable	Other financial liabilities	n/a

See the Company's Consolidated Statements of Financial Position for financial instrument balances as at December 31, 2016 and 2015.

Risk exposure and management

The Company is exposed to various financial instrument risks and continuously assesses the impact and likelihood of this exposure. These risks include credit risk, commodity price risk, liquidity risk, interest rate risk and currency risk. Where material these risks are reviewed and monitored by the Board of Directors.

(a) Credit risk

Credit risk arises from the non-performance by counterparties of contractual financial obligations resulting in financial loss to the Company. The Company's credit risk is primarily attributable to its cash and loan receivable. Cash is held with an investment grade Canadian financial institution as assessed by external rating agencies. Management believes the risk of loss to be minimal. As at December 31, 2016, the Company's maximum credit risk is the carrying value of cash and loan receivable.

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13. Financial instruments – continued

(b) Commodity price risk

The Company is subject to price risk from fluctuations in market prices of the commodities underlying its long-term investment. This exposure includes the ability to raise capital with favourable terms. The Company does not currently hold any financial instruments that mitigate this risk.

(c) Liquidity risk

Liquidity risk refers to the risk that the Company will not be able to meet its financial obligations when they become due, or can only do so at excessive cost. As at December 31, 2016, the Company has a working capital deficiency of \$4,443,367 (December 31, 2015: deficiency of \$362,401). The Company manages liquidity risk by maintaining an adequate cash balance. The Company continuously monitors and reviews both actual and forecasted cash flows and matches the maturity profile of financial assets and liabilities.

Contractual undiscounted cash flow requirements of financial liabilities at December 31, 2016 are as follows:

	Carrying value \$	Less than 1 year \$	Between 2 – 5 years \$	More than 5 years \$	Total
Accounts payable	180,301	180,301	-	-	180,301
Loans payable	4,372,764	4,372,764	-	-	4,372,764

(d) Interest rate risk

As at December 31, 2016, the Company does not hold any variable rate term deposits. The Company is not subject to any significant interest rate risk.

(e) Currency risk

As the Company operates in an international environment, some of the Company's transactions and balances are denominated in currencies other than the Canadian dollar. The Company's foreign exchange risk arises primarily with respect to the United States dollar. The Company is required to make regular cash contributions denominated in United States dollars to fund the companies underlying its long-term investment (Note 7). Fluctuations in the exchange rate between the United States dollar and the Canadian dollar could have a material effect on the Company's business, financial condition and results of operations. The Company does not engage in any hedging activity to mitigate this risk.

As at December 31, 2016, a strengthening (weakening) of the Canadian dollar against the United States dollar of 10% would have an insignificant impact on the Company's consolidated statements of comprehensive loss.

14. Management of capital

The Company manages its capital to ensure it will be able to continue as a going concern and continue the funding of its long-term investment. The Company has no operations that generate cash flow and depends on financings to fund its long-term investment and administrative expenses. The success of each financing depends on numerous factors including a positive oil and gas environment, positive stock market conditions, a company's track record and the experience of management. The capital structure of the Company consists of loans payable and shareholders' equity, which is comprised of share capital, reserves and deficit. The Board of Directors does not establish quantitative return on capital criteria for management due to the nature of the Company's business. The Company does not pay dividends and is not exposed to any externally imposed capital requirements.

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15. Income tax

The Company's provision for income taxes differs from amounts computed by applying the combined Canadian federal and provincial income tax rates, as a result of the following:

Year ended December 31,	2016	2015
Enacted rates	26.00%	26.00%
Income tax recovery (expense) computed at statutory rates	\$ 124,793	\$ 340,226
Permanent differences	5,089	(50,681)
Change in tax rates and other	(251)	-
Expiration of non-capital losses	-	(23,673)
Change in deferred assets not recognized	(129,631)	(265,872)
Recovery of (provision for) income taxes	\$ -	\$ -

The tax effects of temporary timing differences that give rise to significant components of the deferred tax assets and deferred tax liabilities are as follows:

Year ended December 31,	2016	2015
Deferred tax assets		
Financing costs	\$ 9,264	\$ 8,103
Non-capital loss carry forwards	3,160,972	3,032,283
Other	251,519	251,738
Total gross deferred tax assets	3,421,755	3,292,124
Deferred tax assets not recognized	(3,421,755)	(3,292,124)
Net deferred tax assets	\$ -	\$ -

At December 31, 2016, the Company has non-capital losses of approximately \$12,157,586 which may be carried forward to apply against future year's income for Canadian income tax purposes, subject to final determination by taxation authorities, expiring as follows:

2028	\$ 727,988
2029	1,987,052
2030	2,448,244
2031	804,696
2032	2,316,825
2033	2,422,371
2034	955,440
2036	494,970
	\$ 12,157,586

16. Subsequent events

- (a) The Company funded cash calls made by NAAZ2 totalling \$4,483,150 (US \$3,378,230).
- (b) A total of 475,000 warrants with an exercise price of \$0.05 expired.
- (c) A total of 2,000,000 stock options with an exercise price of \$0.20 expired.
- (d) On January 11, 2017, the Company received an additional unsecured loan in the amount of \$1,175,512 from Gulf. The loan was interest bearing at a rate of 7% per annum and was due on February 11, 2017 (Note 16(f)).
- (e) On January 11, 2017, the Company received an unsecured loan in the amount of \$140,000 from Harrington Global Opportunities Fund S.A.R.L., a significant shareholder of the Company ("Harrington"). The loan was interest bearing at a rate of 7% per annum and was due on February 11, 2017 (Note 16(g)).
- (f) On February 14, 2017, the Company entered into an amendment and restatement agreement with Gulf, whereby all existing short-term loan agreements with Gulf have been amended and restated on the terms and conditions of a new loan agreement and the existing short-term loan agreements have been terminated (Notes 9 and 16(d)). On February 14, 2017, the Company received the new loan agreement in the form of a secured convertible loan of \$5,603,371 from Gulf. In return, Gulf received a secured convertible promissory note of \$5,603,371 as evidence of the existing outstanding amount of the principal, interest and fees owed to Gulf from the terminated loan agreements. The promissory note matures on February 14, 2018, accrues interest at the rate of 10% per annum, and is convertible into common shares of the Company at \$0.02 per share.

On February 15, 2017, the Company received a secured convertible loan of \$1,319,749 from Gulf. The loan is evidenced by a secured promissory note in favour of Gulf for the principal amount of \$1,319,749. The maturity date of the principal amount, interest and any fees on the loan is February 15, 2018 and the rate of interest is 10% per annum.

On March 3, 2017, the Company received a secured convertible loan of \$2,007,600 from Gulf. The loan is evidenced by a secured promissory note in favour of Gulf for the principal amount of \$2,007,600. The maturity date of the principal amount, interest and any fees on the loan is March 5, 2018 and the rate of interest is 10% per annum.

All or any portion of the principal amount, accrued interest and fees outstanding under the notes is convertible by Gulf into common shares of the Company at any time before the maturity date, at a conversion price per share set out in the underlying notes, subject to adjustment upon certain events occurring. The conversion price for the loans was approved by the Company's board and by the CSE.

The loans are secured by a general security agreement.

16. Subsequent events – continued

(g) On February 14, 2017, the Company entered into an amendment and restatement agreement with Harrington, whereby the existing short-term loan agreement with Harrington has been amended and restated on the terms and conditions of a new loan agreement and the existing short-term loan agreement has been terminated (Note 16(e)). On February 14, 2017, the Company received the new loan agreement in the form of a secured convertible loan of \$140,936 from Harrington. In return, Harrington received a secured convertible promissory note of \$140,936 as evidence of the existing outstanding amount of the principal, interest and fees owed to Harrington from the terminated loan agreement. The promissory note matures on February 14, 2018, accrues interest at the rate of 10% per annum, and is convertible into common shares of the Company at \$0.02 per share. The loan will be secured by a general security agreement

On February 15, 2017, the Company received a secured convertible loan of \$160,000 from Harrington. The loan is evidenced by a secured promissory note in favour of Harrington for the principal amount of \$160,000. The maturity date of the principal amount, interest and any fees on the loan is February 15, 2018 and the rate of interest is 10% per annum.

All or any portion of the principal amount, accrued interest and fees outstanding under the notes is convertible by Harrington into common shares of the Company at any time before the maturity date, at a conversion price per share set out in the underlying notes, subject to adjustment upon certain events occurring. The conversion price for the loans was approved by the Company's board and by the CSE.

The loans are secured by a general security agreement.