



## **Shamaran Petroleum Corp**

**Financial Report (unaudited)**

**For the three and nine months ended September 30, 2017**

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*The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of the management of the Company.*

**SHAMARAN PETROLEUM CORP.**  
**MANAGEMENT DISCUSSION AND ANALYSIS**

**For the three and nine months ended September 30, 2017**

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Management's discussion and analysis ("MD&A") of the financial and operating results of ShaMaran Petroleum Corp. (together with its subsidiaries, "ShaMaran" or the "Company") is prepared with an effective date of November 16, 2017. The MD&A should be read in conjunction with the unaudited condensed interim consolidated financial statements for the three and nine months ended September 30, 2017 together with the accompanying notes.

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. Unless otherwise stated herein all currency amounts indicated as "\$" in this MD&A are expressed in thousands of United States dollars ("USD").

## **OVERVIEW**

ShaMaran Petroleum Corp. is an oil development and exploration company with a 20.1% direct interest in the Atrush Block production sharing contract ("Atrush PSC") relating to a property located in the Kurdistan Region of Iraq ("Kurdistan"). Atrush is currently in the first phase of the development program ("Phase 1"). Phase 1 of field development consists of installing and commissioning production facilities with 30,000 barrels of oil per day ("bopd") capacity and the drilling and completion of five production wells to supply the production facility. Oil production from Atrush commenced in July 2017.

The oil discovery on the Atrush petroleum property is continuously being appraised. Further phases of development will be defined based on production data, appraisal information and economic circumstances. The Atrush Block is located approximately 85 kilometres northwest of Erbil, the capital of Kurdistan, is 269 square kilometres in area and has oil proven in Jurassic fractured carbonates in the Chiya Khere structure. The structure is expressed at surface by the Chiya Khere mountain which runs east-west for approximately 25 kilometres with an approximate width of 3.5 kilometres.

ShaMaran is a Canadian oil and gas company listed on the TSX Venture Exchange and the NASDAQ First North Exchange (Stockholm) under the symbol "SNM".

## **HIGHLIGHTS AND DEVELOPMENTS**

### ***Operations***

- Oil production on the Atrush Block commenced in July 2017. Atrush is currently producing at approximately 26 thousand barrels of oil per day ("bopd"). In order to address certain production constraints the facilities were shut down in the beginning of October. These constraints have now successfully been resolved.
- One of the four production wells, Atrush 4, ("AT-4") is currently shut in. The well was back-producing drilling fluid lost during drilling operations. In order to not upset the production system it was decided to clean up the well via temporary facilities upon the receipt of a flare permit from the Kurdistan Regional Government ("KRG"). This operation is now planned for Q4 2017.
- In October and November 2017 the Company received payments totalling \$2.5 million representing its entitlement share of the \$9.7 million in total payments received by the Atrush Non-Government Contractors from the KRG for July and August oil sales from Atrush and reimbursement instalments of the Atrush Exploration Costs receivable. 703 thousand barrels of oil were exported from Atrush for the months of July and August with an average netback price<sup>1</sup> of \$35.3 per barrel of oil. Total oil produced and exported from Atrush over the third quarter was 1.3 million barrels resulting in an average of 14.6 thousand barrels per day. The average netback price over the quarter was \$36.86 per barrel and the average lifting cost was \$8.54 per barrel.

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<sup>1</sup>This includes a discount to Dated Brent for oil quality and all local and international transportation costs.

- The Chiya Khere-7 (“CK-7”), which was spudded on September 17, 2017 reached a final depth of 1,861 metres in early November 2017. The reservoir section was encountered approximately 114 metres shallower than prognosis. The well was drilled on time and under budget. Testing and completion of the well will be performed in 2018 to coincide with installation of flow lines between the Production Facility and the Chamanke E location where the well is located. The main objectives of the well are to appraise the commercial potential of the Mus formation, to help reduce the uncertainty in the location of the medium to heavy oil transition zone and to serve as a further producing well.
- In September 2017 an agreement was concluded between the Atrush Non-Government Contractors and the KRG for the sale of Atrush oil whereby the KRG will buy oil exported from the Atrush field by pipeline at the Atrush block boundary based upon the Dated Brent oil price minus approximately \$16 for quality discount and all local and international transportation costs. This discount is based on the same principles as other oil sales agreements in the Kurdistan Region of Iraq.
- The Final Completion Certificate for the Atrush Feeder Pipeline (“FCC”) was issued on October 31, 2017 which completes the obligation of the Non-Government Contractors to fund the KRG’s share of development costs and triggers the commencement of repayment of both the Atrush Feeder Pipeline Cost Loan and the Atrush Development Cost Loan. The first loan repayment instalments are due later in November 2017.
- Following the independence referendum held in Kurdistan on September 25, 2017, operations in the Atrush field in Kurdistan are continuing in a normal, safe and secure manner. Exports from Atrush are continuing via the Kurdistan Export Pipeline system and drilling operations on the CK-7 well are progressing as planned. Nevertheless, events since the referendum suggest an increase in the potential for political instability within the region.

### **Corporate**

- On January 30, 2017 the Company completed the issue of 360 million common shares of ShaMaran on a private placement basis (the “Private Placement”) at a price per share of CAD 0.10 (equal to SEK 0.67) which resulted in gross proceeds to the Company of \$27.3 million (\$26.4 million net of transaction related costs). Zebra Holdings and Investments SARL, Lorito Holdings SARL and Lundin Petroleum BV, the Company’s major shareholders, subscribed for 43,463,618 shares, 16,984,621 shares and 17,800,000 shares, respectively, in the Private Placement.
- On February 16, 2017 the Company reported estimated reserves and contingent resources for the Atrush block as of December 31, 2016. Reserves and resource estimates have remained unchanged from those reported for the prior year. Total discovered oil in place in the Atrush Block is a low estimate of 1.5 billion barrels, a best estimate of 2.1 billion barrels and a high estimate of 2.8 billion barrels, with Total Field Proven plus Probable (“2P”) Reserves on a property gross basis estimated at 85.1 MMbbl and Total Field Unrisked Best Estimate Contingent Resources (“2C”)<sup>2</sup> on a property gross basis estimated at 304 million barrels oil equivalent (MMboe)<sup>3</sup>.

### **OPERATIONS**

Construction work and commissioning on the 30,000 bopd Atrush Phase 1 Production Facilities (“Production Facility”), the pipeline between the Production Facility and the block boundary (the “Spur Pipeline”), the pump station, the intermediate pigging and pressure reduction station (“IPPR”) and the section of the pipeline from the block boundary to the tie-in point on the main export pipeline (“Feeder Pipeline”) necessary for exporting Atrush oil was concluded in the first half of 2017.

Oil production on the Atrush Block commenced on July 3, 2017. Cumulative production exported from Atrush from July to September 2017 was 1.3 million barrels of oil. In order to address certain production constraints the Production Facility was shut down in early October. Production has since resumed and Atrush is currently producing at approximately 25 thousand bopd. One of the four production wells, AT-4, is currently shut in. The well was back-producing drilling fluid lost during drilling operations. In order to not upset the production system it was decided to produce the well clean via temporary facilities upon the receipt of a flare permit from the KRG. This operation is now planned for Q4 2017.

<sup>2</sup> This estimate of remaining recoverable resources (unrisked) includes contingent resources that have not been adjusted for risk based on the chance of development. It is not an estimate of volumes that may be recovered.

<sup>3</sup> Boe may be misleading, particularly if used in isolation. A boe conversion ratio of 6 million cubic feet (“Mcf”) per one barrel is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

CK-7 was spudded on September 17, 2017 and reached a final depth of 1,861 metres in early November 2017. The reservoir section was encountered approximately 114 metres shallower than prognosis. Testing and completion of the well will be performed in 2018 to coincide with installation of flow lines between the Production Facility and the Chamanke E location where the well is located. CK-7 was drilled with the Romfor 25 rig and was on time and under budget. The main objectives of the well are to appraise the commercial potential of the Mus formation, to help reduce the uncertainty in the location of the medium to heavy oil transition zone and to serve as a further producing well.

CK-7, together with the four other producers, which are all situated in a small area in the center of the Atrush field, form the basis of the 2P reserves estimate of 85.1 MMbbl. In the absence of firm commitment by the Atrush partners for further wells, which, among other things, is pending further information from production, no further development wells are assumed in the reserves estimates.

A further two appraisal wells have been drilled and tested in the eastern part of the field. Good reservoir communication has been proven between the east and the west part of the field. This is reflected in the gross 2C best estimate contingent resources of 304 MMboe. The Company's independent reserves and resources evaluator, McDaniel & Associates Consultants Ltd ("McDaniel"), estimates the chance of developing the 2C contingent resources at 80 percent.

It is planned to conduct an extended well test in one of the two eastern appraisal wells. This will provide important production information on the heavier part of the oil column. Together with production data from the 5 development wells this will allow the Atrush partnership to define the next phases of development and decisions related to developing the contingent resources.

## **OUTLOOK**

### ***Operations***

- In the fourth quarter of 2017 it is planned to produce the AT-4 well until clean via temporary facilities and bring Atrush production up to the facilities' design capacity of 30,000 bopd.
- Plans for Atrush for 2018 include:
  - continue with program to identify bottlenecks in order to maximise output from the Production Facility;
  - testing and completion of the CK-7 well;
  - install the CK-7 flow line and bring CK-7 into production;
  - drilling, testing and completion of Chiya Khere ("CK-10"), a sixth development well;
  - drilling and completion of Chiya Khere ("CK-9"), a dedicated water disposal well; and
  - conducting extended testing of the CK-6 well which is located on the eastern side of the Atrush Block and which is outside the 2P reserve area of Atrush. This would involve the installation of temporary production facilities near the Chamanke-C well pad and the delivery by truck of oil to the main Phase 1 Production Facilities.
- Following the results of the CK-7 and CK-10 wells, the extended well testing in CK-6 and sustained production from the Phase 1 Production Facilities the Company expects to be in a position to further assess the significant undeveloped Atrush resource base.
- The political situation in the Kurdistan region will be monitored continuously and the market will be appraised of any material impact on operational activity.

## **OWNERSHIP, PRINCIPAL TERMS OF THE ATRUSH PSC**

ShaMaran, through its wholly owned subsidiary, GEP, holds a 20.1% direct interest in the Atrush PSC. TAQA Atrush B.V. ("TAQA" a subsidiary of Abu Dhabi National Energy Company PJSC, and the "Operator" of the Atrush Block) with a 39.9% direct interest, the KRG holds a 25% direct interest and Marathon Oil KDV B.V. ("MOKDV") holds a 15% direct interest. TAQA, GEP, and MOKDV together are the "Non-Government Contractors" to the Atrush PSC. The Non-Government Contractors and the KRG together are the "Contractors" to the Atrush PSC.

The Atrush field was discovered in 2011 and a Phase 1 development plan was approved in October 2013, which consists of installing and commissioning production facilities with 30,000 bopd capacity and the drilling and completion of production wells which supply the Production Facility. In August 2010 the Company acquired a 33.5% shareholding in GEP which then held an 80% working interest in the Atrush PSC, with the remaining 20% third party interest (“TPI”) being held by the KRG. In October 2010 MOKDV was assigned the 20% TPI in the Atrush PSC. On December 31, 2012 GEP sold a 53.2% direct interest in the Atrush Block to TAQA, who also assumed from GEP the Operatorship of the Block, and repurchased the entire 66.5% shareholding which Aspect Energy International LLC (“Aspect”) held in GEP, leaving the Company with a 100% shareholding interest in GEP and, at that time, a 26.8% direct interest in the Atrush PSC.

On November 7, 2016 the Assignment, Novation and Fourth Amendment Agreement to the Atrush PSC (the “4<sup>th</sup> PSC Amendment”) and Atrush Facilitation Agreement were concluded between Non-Government Contractors and the KRG.

The 4<sup>th</sup> PSC Amendment and Atrush Facilitation Agreement include the following principal terms:

- The KRG acquires a 25% interest in the Atrush PSC effective November 7, 2012, the date of declaration of commerciality (“DOC date”). As a consequence the respective participating interests in the Atrush PSC are TAQA at 39.9%, the KRG at 25%, GEP at 20.1% and MOKDV at 15%;
- The Non-Government Contractors will fund the cost of constructing the Feeder Pipeline which will be novated to the KRG following the commencement of oil exports from Atrush;
- All Atrush petroleum costs from the DOC date up to the commencement of oil exports from Atrush, which is defined as when the FCC for the Feeder Pipeline is issued, are to be paid by the Non-Government Contractors and a defined portion of the KRG’s share of these costs will be repaid through an accelerated petroleum cost recovery arrangement from the sale of future oil production from Atrush; and
- Feeder Pipeline costs and the balance of the Atrush petroleum costs incurred by the Non-Government Contractors on behalf of the KRG that are not covered by the accelerated petroleum cost recovery arrangement will be repaid by the KRG within 2 years from issuance of the FCC for the Feeder Pipeline.

Under the terms of the Atrush PSC the development period is for 20 years with an automatic right to a five year extension and the possibility to extend for an additional five years. All qualifying petroleum costs incurred by the Contractors shall be recovered from a portion of available petroleum production, defined under the terms of the Atrush PSC. All modifications to the Atrush PSC are subject to the approval of the KRG.

Fiscal terms under the Atrush PSC include a 10% royalty and a variable profit split based on a percentage share to the KRG. GEP has the right to recover costs using up to 40% of the available oil (produced oil less royalty oil) and 55% of the produced gas. The Contractors are entitled to cost recovery in respect of all costs and expenditures incurred for exploration, development, production and decommissioning operations, as well as certain other allowable direct and indirect costs.

The portion of profit oil available to the Contractors is based on a sliding scale from 32% to 16% depending on the “R-Factor”, which is a ratio of cumulative revenues to cumulative costs. When the ratio is below one, the Contractors are entitled to 32% of profit oil, with a reducing scale to 16% when the ratio is greater than 2.75. In respect of gas, the sliding scale is from 40% to 22%.

## SELECTED QUARTERLY FINANCIAL INFORMATION

The following is a summary of selected quarterly financial information for the Company:

(In \$000, except per share data)

	For the quarter ended							
	Sep 30 2017	Jun 30 2017	Mar 31 2017	Dec 31 2016	Sep 30 2016	Jun 30 2016	Mar 31 2016	Dec 31 2015
<b>Continuing operations</b>								
Revenues	3,782	-	-	-	-	-	-	-
Cost of goods sold	(4,583)	-	-	-	-	-	-	-
Service fee income	-	-	-	-	90	30	-	-
Impairment loss	-	-	-	-	-	-	-	(244,557)
General and admin. expense	(1,637)	(818)	(1,090)	(805)	(695)	(1,009)	(1,302)	(460)
Share based payments expense	-	-	(11)	(57)	(58)	(58)	(76)	(172)
Depreciation and amortisation	(8)	(8)	(10)	(11)	(12)	(11)	(11)	(11)
Finance cost	(3,436)	(1,482)	(1,503)	(1,422)	(1,393)	(1,443)	(1,402)	(1,328)
Finance income	525	439	352	509	16	12	21	47
Income tax expense	(36)	(14)	(21)	(14)	(14)	(15)	(26)	(10)
Net loss from continuing ops.	(5,393)	(1,883)	(2,283)	(1,800)	(2,066)	(2,494)	(2,796)	(246,491)
<b>Discontinued operations</b>								
Other income	-	-	-	-	-	-	-	1
Net income from discontinued ops.	-	-	-	-	-	-	-	1
<b>Net loss</b>	(5,393)	(1,883)	(2,283)	(1,800)	(2,066)	(2,494)	(2,796)	(246,490)
Basic income in \$ per share:								
Continuing operations	-	-	-	(0.01)	-	-	-	(0.17)
Discontinued operations	-	-	-	-	-	-	-	-
	-	-	-	(0.01)	-	-	-	(0.17)
Diluted income in \$ per share:								
Continuing operations	-	-	-	(0.01)	-	-	-	(0.17)
Discontinued operations	-	-	-	-	-	-	-	-
	-	-	-	(0.01)	-	-	-	(0.17)

### Summary of Principal Changes in the Third Quarter Financial Information

In the third quarter of 2017 production from the Atrush Block commenced and work on the Atrush development program continued. The net loss was primarily driven by a negative margin on Atrush oil sales resulting principally from three months of full operating costs during production ramp up, general and administrative expenses and finance cost, the substantial portion of which were expensed borrowing costs on the Company's Senior Bonds and Super Senior Bonds. These expenses have been slightly offset by interest income on Atrush cost loans to the KRG and interest on cash held in short term deposits.

## Results of Continuing Operations

The Company's continuing operations are comprised of the Phase 1 development program on the Atrush Block petroleum property which commenced production on July 3, 2017. The expenses and income items of continuing operations are explained in detail as follows:

### Gross margin on oil sales

In \$000	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Revenues from Atrush oil sales	3,782	-	3,782	-
Lifting costs	(2,302)	-	(2,302)	-
Depletion costs	(2,281)	-	(2,281)	-
Cost of goods sold	(4,583)	-	(4,583)	-
Gross loss on oil sales	(801)	-	(801)	-

Revenues relate to the Company's entitlement share of oil sales from Atrush for the period. Revenue for sales of oil is recognised when the significant risks and rewards of ownership are deemed to have been transferred to the KRG, the amount can be measured reliably and it is assessed as probable that economic benefit associated with the sale will flow to the Company. This occurs when oil reaches the delivery point at the Atrush Block boundary in route to the KRG's main export pipeline.

Revenue is recognised at fair value. The fair value is comprised of the Company's entitlement production due under the terms of the Atrush Joint Operating Agreement ("Atrush JOA") and the Atrush PSC which has two principal components: cost oil, which is the mechanism by which the Company recovers qualifying costs it has incurred on an asset, and profit oil, which is the mechanism through which profits are shared between the Company, its partners and the KRG. The Company pays capacity building payments on profit oil, which are due for payment once the Company has received the related profit oil proceeds. Profit oil revenue is reported net of any related capacity building payments.

The Company's oil sales are made to the KRG under the terms of a sales agreement which allows for Atrush oil volumes to be sold to the KRG at the Atrush block boundary at a discount to the Dated Brent oil price for estimated oil quality adjustments and all local and international transportation costs.

Income tax arising from the Company's activities under production sharing contracts is settled by the KRG at no cost and on behalf of the Company. However the Company is not able to measure the tax that has been paid on its behalf and consequently revenue is not reported gross of income tax paid.

Total oil produced and exported from Atrush over the third quarter was 1.3 million barrels resulting in an average of 14.6 thousand barrels per day. The Company's 20.1% working interest share of Atrush production was 261 thousand barrels of oil and its entitlement share was 102.6 thousand barrels of oil.

Lifting costs are comprised of the Company's share of expenses related to the production of oil from the Atrush Block including operation and maintenance of wells and production facilities, insurances, and the Operator's related support costs. For the three months ended September 2017 the average lifting cost was \$8.54 per barrel produced.

Oil and gas assets are depleted using the unit of production method based on proved and probable reserves using estimated future prices and costs and taking into account future development expenditures necessary to bring those reserves into production. The reserves correspond to the Company's entitlement to oil under the terms of the PSC. The depletion cost was \$22.23 per entitlement barrel for the three months ended September 2017. Changes to depreciation rates as a result of changes in reserve quantities and estimates of future development expenditure are reflected prospectively.

The gross loss on oil sales in the three months ended September 30, 2017 is explained by two limiting factors on revenue entitlements to this point - production was 48% of facility capacity which was in full operation over the period and disproportionate cost oil revenue was distributed between TAQA and GEP under the JOA<sup>4</sup>. The result was that the Company's share of entitlement revenues were in this period insufficient to offset the Company's full working interest share of lifting costs, which are primarily fixed, and depletion costs, which are driven by entitlement production.

### **Service fee income**

<i>In \$000</i>	<b>Three months ended September 30,</b>		<b>Nine months ended September 30,</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Service fee income	-	90	-	120

During the nine months ended September 30, 2016 the Company has provided technical services to a third party petroleum company. That service was complete in September of 2016.

### **General and administrative expense**

<i>In \$000</i>	<b>Three months ended September 30,</b>		<b>Nine months ended September 30,</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Salaries and benefits	1,362	470	2,590	1,848
Management and consulting fees	84	75	251	320
General and other office expenses	77	85	225	261
Listing costs and investor relations	73	52	230	249
Travel expenses	29	18	109	75
Legal, accounting and audit fees / (recovery)	12	(5)	140	253
General and administrative expense	1,637	695	3,545	3,006

The higher general and administrative expense incurred in the first nine months of 2017 relative to the amount incurred in the comparative period of 2016 was principally due higher payroll related costs relating to salary bonuses in the Company's Swiss subsidiary, the absence of once-off legal fees incurred last year on bond refinancing and lower management and consulting fees relating to a reduction in service fees in respect of the Company's Swiss subsidiary.

### **Share based payments expense**

<i>In \$000</i>	<b>Three months ended September 30,</b>		<b>Nine months ended September 30,</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Share based payments expense	-	58	11	192

The share based payments expense results from the vesting of stock options granted in the year 2015. No stock options were granted in the nine months ended September 30, 2017 or in the year 2016. The Company uses the fair value method of accounting for stock options granted to directors, officers, employees and consultants whereby the fair value of all stock options granted is recorded as a charge to operations. The fair value of common share options granted is estimated on the date of grant using the Black-Scholes option pricing model.

<sup>4</sup> TAQA and GEP have under the Atrush JOA agreed a priority arrangement for sharing their combined initial \$49.9 million share of exploration cost oil revenues such that TAQA receives the initial \$10.8 million and GEP receives the next \$39.1 million, thereafter cost oil revenues for these two parties is determined by their relative participating interests in the Arush PSC.



### **Depreciation and amortisation expense**

<i>In \$000</i>	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Depreciation and amortisation expense	8	12	26	34

Depreciation and amortisation expense corresponds to cost of use of the furniture and IT equipment at the Company's technical and administrative offices located in Switzerland and Kurdistan.

### **Finance income**

<i>In \$000</i>	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Interest on Atrush Development Cost Loan	316	-	800	-
Interest on Atrush Feeder Pipeline Cost Loan	173	-	394	-
Interest on deposits	29	6	94	39
Total interest income	518	6	1,288	39
Foreign exchange gain	7	10	-	-
Total finance income	525	16	1,288	39

Under the terms of the 4<sup>th</sup> PSC Amendment and the Atrush Facilitation Agreement the Non-Government Contractors have agreed to pay their pro-rata share of the Feeder Pipeline costs and of the KRG's share of Atrush development costs up to October 31, 2017. Thereafter these costs will be reimbursed to the Non-Government Contractors. The loan interest amounts reported in the first nine months of 2017 represent 7% per annum interest on the entire funded portion of Atrush Feeder Pipeline costs up to the balance sheet date and on a defined portion of the Atrush development costs which also bears interest at 7% per annum. For further information on the loans refer to the discussion under the "Loans and receivables" section below.

Interest on deposits represents bank interest earned on cash and investments held in interest bearing funds. The increase in interest income reported in the nine months ended September 30, 2017 relative to the amount reported in 2016 is due to a higher level of interest bearing funds held in 2017.

The foreign exchange gain recorded in the three months ended September 30, 2017 resulted primarily from holding in the Company's Swiss subsidiary net assets denominated in United States dollars while the USD strengthened during the period against the Swiss Franc, the functional currency of the Swiss subsidiary. Over the first nine months of 2017 the Company recorded a foreign exchange loss (refer to discussion below under finance cost).

### **Finance cost**

<i>In \$000</i>	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Interest charges on bonds at coupon rate	5,068	4,530	14,797	13,283
Amortisation of bond transaction costs	211	209	631	733
Interest expense on borrowings	5,279	4,739	15,428	14,016
Unwinding discount on decommissioning provision	7	19	-	62
Foreign exchange loss	-	-	19	64
Total finance costs before borrowing costs capitalised	5,286	4,758	15,447	14,142
Borrowing costs capitalised as E&E and PP&E assets	(1,850)	(3,365)	(9,054)	(9,914)
Finance cost	3,436	1,393	6,393	4,228

General and specific borrowing costs directly attributable to the acquisition, exploration and development of Atrush have been capitalised together with the related Atrush oil and gas assets. All other borrowing costs are recognised in profit or loss in the period in which they are incurred. The decrease in borrowing costs capitalised in the reporting period relative to the total interest expense on borrowings is due to expensing the pro-rata portion of borrowing costs related to Atrush production costs which commenced in July 2017.

During the nine months ended September 30, 2017 the Company incurred interest expense relating to its Senior Bonds and Super Senior Bonds which both carry an 11.5% fixed semi-annual coupon interest rate. Interest expense on borrowings increased over the comparable period of the prior year due to the additional bonds outstanding in the period and the amortisation of additional bond transaction costs incurred in May 2016 with the first issue of Super Senior Bonds.

The foreign exchange loss recorded in the nine months ended September 30, 2017 resulted primarily from holding in the Company's Swiss subsidiary net assets denominated in United States dollars while the USD weakened during the period against the Swiss Franc, the functional currency of the Swiss subsidiary.

### **Income tax expense**

<i>In \$000</i>	<b>Three months ended September 30,</b>		<b>Nine months ended September 30,</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Income tax expense	36	14	71	55

Income tax expense relates to provisions for income taxes on service income generated in Switzerland which is determined on the basis of costs incurred in procuring the services. The increase in tax expense from the amount reported in the same period in 2016 is primarily due to higher taxable income in the Company's Swiss subsidiary which increased compared to 2016 consistent with higher year to date costs of service.

### **Capital Expenditures on Property Plant & Equipment ("PP&E")**

The net book value of PP&E at September 30, 2017 is principally comprised of development costs related to the Company's share of Atrush PSC proved and probable reserves as estimated by McDaniel less the cumulative costs corresponding to commercial production which commenced in July 2017. The movements in PP&E are explained as follows:

<i>In \$000</i>	<b>Nine months ended Sep 30, 2017</b>			<b>Year ended December 31, 2016</b>		
	<b>Oil and gas assets</b>	<b>Office equipment</b>	<b>Total</b>	<b>Oil and gas assets</b>	<b>Office equipment</b>	<b>Total</b>
Opening net book value	174,642	16	174,658	177,000	44	177,044
Additions	17,001	1	17,002	45,799	1	45,800
Transfer to Atrush Development Cost Loan	-	-	-	(10,682)	-	(10,682)
Transfer to Atrush Expl. Costs receivable	-	-	-	(37,475)	-	(37,475)
Depreciation expense	-	(14)	(14)	-	(29)	(29)
Depletion	(2,281)	-	(2,281)	-	-	-
<b>Net book value</b>	<b>189,362</b>	<b>3</b>	<b>189,365</b>	<b>174,642</b>	<b>16</b>	<b>174,658</b>

During the first nine months of 2017 additions of \$17.0 million (year 2016: \$45.8 million), which included borrowing costs totalling \$9.0 million (year 2016: \$13.1 million), were capitalised to PP&E and depletion of \$2.3 million (year 2016: \$nil) was charged to PP&E.

On November 7, 2016 the 4<sup>th</sup> PSC Amendment and Atrush Facilitation Agreement were concluded between Non-Government Contractors and the KRG which has resulted in the reclassification of certain costs from PP&E to loans and receivables.

## Capital Expenditures on Intangible Assets

The net book value of Intangible assets at September 30, 2017 is principally comprised of exploration and evaluation (“E&E”) assets which represent the Atrush Block exploration and appraisal costs related to the Company’s share of Atrush Block contingent resources as estimated by McDaniel. The movements in Intangible assets are explained as follows:

<i>In \$000</i>	Nine months ended Sep 30, 2017			Year ended December 31, 2016		
	E&E assets	Software & Licences	Total	E&E assets	Software & Licences	Total
Opening net book value	88,972	35	89,007	88,594	51	88,645
Additions	283	-	283	378	-	378
Exchange differences	-	1	1	-	-	-
Amortisation expense	-	(11)	(11)	-	(16)	(16)
<b>Net book value</b>	<b>89,255</b>	<b>25</b>	<b>89,280</b>	<b>88,972</b>	<b>35</b>	<b>89,007</b>

During the first nine months of 2017 additions of \$0.3 million (year 2016: \$0.4 million), which included borrowing costs of \$0.1 million (year 2016: \$0.3 million), were capitalised to E&E assets.

## Loans and receivables

On November 7, 2016 the 4<sup>th</sup> PSC Amendment and Atrush Facilitation Agreement were concluded between the Non-Government Contractors and the KRG. On the same day TAQA entered into an Engineering, Procurement and Construction (“EPC”) contract with KAR Company for the construction of the Feeder Pipeline.

Under the terms of the 4<sup>th</sup> PSC Amendment and Atrush Facilitation Agreement:

- The KRG acquires a 25% interest in the Atrush PSC effective November 7, 2012, the DOC date. As a consequence the respective participating interests in the Atrush PSC are TAQA at 39.9%, the KRG at 25%, GEP at 20.1% and MOKDV at 15%;
- All Atrush petroleum costs from the DOC date through the issuance of the FCC for the Feeder Pipeline, which was done on October 31, 2017, are to be paid by the Non-Government Contractors and a defined portion of the KRG’s share of these costs will be deemed Exploration Costs as defined in the Atrush PSC and repaid through an accelerated petroleum cost recovery arrangement from the sale of future oil production from Atrush. This arrangement has resulted in the Atrush Exploration Cost receivable as reported in the table below; and
- The Non-Government Contractors will fund the cost of constructing the Feeder Pipeline which will be novated to the KRG following the issuance of the FCC for the Feeder Pipeline, which was done on October 31, 2017. The Feeder Pipeline costs and the balance of the Atrush petroleum costs incurred by the Non-Government Contractors on behalf of the KRG excluding the portion deemed as Exploration Costs will be repaid with interest at 7% per annum by the KRG within 2 years from October 31, 2017 (respectively, the “Atrush Feeder Cost Loan” and the “Atrush Development Cost Loan”). These arrangements have resulted in loan balances as reported in the table below.

<i>In \$000</i>	For the nine months ended September 30, 2017	For the year ended December 31, 2016
Atrush Exploration Costs receivable	37,531	37,475
Atrush Development Cost Loan	17,017	12,857
Atrush Feeder Pipeline Cost Loan	9,678	3,034
Accounts receivable on Atrush oil sales	3,782	-
<b>Total loans and receivables</b>	<b>68,008</b>	<b>53,366</b>

In October and November 2017 the Company received \$2.5 million in total payments for its entitlement share of July and August oil sales from Atrush and its share of reimbursement instalments on the Atrush Exploration Costs receivable.

## Borrowings

At September 30, 2017 General Exploration Partners, Inc. had outstanding \$157.2 million of senior secured bonds (the "Senior Bonds") and \$19.1 million of super senior secured bonds (the "Super Senior Bonds"). The Senior Bonds are listed on the Oslo Børs in Norway under the symbol "GEP01", have a five year maturity from their issuance date of November 13, 2013 and carry an 11.5% fixed semi-annual coupon and were used to fund capital expenditures related to the development of the Atrush Block. The Super Senior Bonds also mature on November 13, 2018, carry an 11.5% fixed semi-annual coupon and are being used to fund capital expenditures related to the development of the Atrush Block. GEP has the option to pay in cash or in kind by issuing PIK Bonds the remaining coupon interest on both Senior and Super Senior bonds.

The movements in borrowings are explained as follows:

*In \$000*

	<b>For the nine months ended September 30, 2017</b>	<b>For the year ended December 31, 2016</b>
Opening balance	167,632	150,515
Interest charges at coupon rate	14,797	17,951
Bonds issued	9,585	17,700
Amortisation of bond transaction costs	631	943
Super Senior Bonds – net of transaction costs	-	16,223
Senior Bonds exchanged for ShaMaran common shares	-	(18,000)
Interest payments to bondholders	(9,585)	(17,700)
Ending balance	183,060	167,632
- Current portion: accrued bond interest expense	7,715	2,503
- Non-current portion: borrowings	175,345	165,129

The remaining contractual obligations comprising of repayment of principal and interest expense under the bond agreements, based on undiscounted cash flows at payment date and assuming all interest in 2017 is paid by issuing new bonds and the bonds are not redeemed early, are as follows:

	<b>At September 30, 2017</b>	<b>At December 31, 2016</b>
Less than one year	20,856	19,722
Between one and two years	187,004	188,138
Total	207,860	207,860

## Debt Incurrence Tests

In accordance with the terms of GEP's Senior Bonds and Super Senior Bonds agreements ShaMaran is required to be in compliance with certain debt incurrence tests as follows:

1. upon incurrence of any new financial indebtedness, other than certain permitted financial indebtedness as described in the Super Senior Bonds agreement, then ShaMaran's Book Equity Ratio, which is defined as shareholders' equity divided by total assets, shall be minimum 30% immediately thereafter, and
2. ShaMaran and any of its subsidiaries (together the "Group") other than GEP, which is not allowed to do so, may not enter into an agreement to make any acquisitions, merger or any other transactions involving another party being consolidated into the Group's accounts, unless such other party has a minimum 30% Book Equity Ratio prior to such transaction taking place.

## Security

The security is held jointly for the Senior and Super Senior Bonds with the Super Senior Bonds on first rank and the Senior Bonds on second rank until the Super Senior Bonds are repaid in full.

The bonds include an unconditional and irrevocable on-demand guarantee on a joint and several basis from the Company and certain of the Company's direct and indirect subsidiaries and, among other arrangements, agreements which pledge all of the ordinary shares of GEP and the Company's Swiss service subsidiary, ShaMaran Services SA, as security for GEP's bond related obligations, as well as an internal credit facility agreement among the Company and certain of its subsidiaries setting out the terms and conditions for intra-group credit to be made available amongst the parties.

Under the terms of both bond agreements all bond proceeds are held in accounts pledged to the bond trustee as security and may be accessed by the Company on prior authorisation of the bond trustee provided the proceeds are to be employed for prescribed purposes, most notably to fund the financing, development and operation of the Atrush Block and to fund technical, management and administrative services of ShaMaran's subsidiary companies up to \$6 million per year over the term of the bonds.

In the nine months ended September 30, 2017 PIK Bonds of \$8.5 million and \$1.0 million were issued under the Senior Bonds and Super Senior Bonds agreements, respectively, to pay semi annual coupon interest which came due on May 13, 2017. On November 13, 2017 further PIK Bonds of \$9.0 million and \$1.1 million were issued under the Senior Bonds and Super Senior Bonds agreements, respectively, to pay semi annual coupon interest which came due on November 13, 2017.

## **LIQUIDITY AND CAPITAL RESOURCES**

Working capital at September 30, 2017 was \$12.9 million compared to \$3.7 million at September 30, 2016.

As explained in the Company's cash flow statement during the first nine months of 2017 the overall cash position of the Company increased by \$2.6 million compared to a decrease in cash of \$17.0 million during the comparative period of 2016. The main components of the movement in funds are discussed in the following paragraphs.

The operating activities of the Company during the first nine months of 2017 resulted in a decrease in the cash position of \$6.3 million compared to a decrease of \$8.0 million in the cash position during the comparable period of 2016. The decrease in the cash position is explained by a net loss of \$9.6 million which was offset by \$3.3 million of net positive cash adjustments from working capital items and non-cash expenses.

Net cash outflows to investing activities in the first nine months of 2017 were \$17.4 million compared to cash outflows of \$25.2 million in the comparable period of 2016. Substantially all of the cash outflows to investing activities in 2017 relate to investment in the Atrush Block development work program, and was comprised of \$7.8 million in respect of the Company's participating interest in the Atrush PSC and \$9.6 million in respect of loans to the KRG to fund a portion of the Atrush Feeder Pipeline and other Atrush development costs.

The Company had net cash inflows of \$26.4 million from financing activities in the first nine months of 2017 compared to \$16.2 million in the comparable period in 2016. The cash inflows relate entirely to the issuance of common shares of the Company pursuant to the Private Placement conducted in January 2017. Refer also to the discussion above under the "Outstanding Share Data and Stock Options" section of this MD&A.

At September 30, 2017 ShaMaran held cash and cash equivalents of \$7.0 million. Combined cash flows from management forecasts of Atrush oil sales, spending on Atrush development, bond coupon interest and technical and administrative costs in support of Atrush operations is projected to result in net cash inflows of \$22 million for the 12 months ended September 30, 2018. The oil sales volume assumptions reflect production reaching a rate of 27,000 bopd in 2017 which is the planned capacity of the Atrush production facility at 90% uptime and that all crude oil produced from Atrush will be delivered, sold and paid for in accordance with the terms of the Atrush PSC and collected within three months following the month of production. The forecasted revenue cash flows are based on Brent forward contract prices as of the balance sheet date and a \$16 discount for transportation costs and oil quality differentials consistent with the agreement for the sale of Atrush oil exports between the Atrush Non-Government Contractors and the Kurdistan Regional Government ("KRG"). The timing and extent of Atrush development costs is based on the Operator's latest forecasts for the Atrush work program while the technical and administrative support costs are management's latest estimates for these forthcoming requirements.

Events in Kurdistan since the independence referendum held on September 25, 2017 suggest an increase in the potential for political instability in the region. In case there are delays in the forecasted receipt of cash from the sale of oil exports or in the magnitude of those cash receipts, which are under the control of the KRG, and the Company was unable to defer certain planned cost activities, the Company could, by the first quarter of 2018, require additional liquidity in order to fund the forecasted Atrush operating and development costs thereafter. Failure to meet development commitments could put the Atrush PSC and the Company's bond agreements at risk of forfeiture.

Management continues to monitor its financing requirements and is considering a number of financing alternatives in relation to the November 2018 maturity of the Company's Senior Bonds and Super Senior Bonds debts. In the event that the Company could not secure external financing in sufficient amount and in time to meet its obligations as they come due, the Company may be required to take measures such as divestment of assets and or further renegotiation of its existing debt. Should this not be successful, there is a risk that the Company would be subject to a partial or complete reorganization, or that the Company is declared bankrupt. The potential that the Company's financial resources are insufficient to fund its appraisal, development and production activities for the next 12 months, particularly in case there are unforeseen delays in receipt of funds from oil sales and or in the case the Company is unable to secure a solution to finance the maturing bonds on or before they come due, indicates a material uncertainty which may cast significant doubt over the Company's ability to continue as a going concern.

#### OUTSTANDING SHARE DATA AND STOCK OPTIONS

On January 30, 2017 the Company completed the issue of 360 million common shares of ShaMaran on a private placement basis (the "Private Placement") at a price per share of CAD 0.10 (equal to SEK 0.67) which resulted in gross proceeds to the Company of \$27.3 million (\$26.4 million net of transaction related costs). Zebra Holdings and Investments SARL, Lorito Holdings SARL and Lundin Petroleum BV, the Company's major shareholders, subscribed for 43,463,618 shares, 16,984,621 shares and 17,800,000 shares, respectively, in the Private Placement. As a result of the Private Placement the Company had 2,158,631,534 outstanding shares at September 30, 2017 and at the date of this MD&A.

At September 30, 2017 there were 28,165,000 stock options outstanding under the Company's employee incentive stock option plan, there is no change from the stock options outstanding at December 31, 2016. No stock options were forfeited or exercised in the first nine months of 2017 (2016: 25,000 expired). There has been no further movement in stock options from September 30, 2017 to the date of this MD&A.

The Company has no warrants outstanding.

#### OFF BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements.

#### RELATED PARTY TRANSACTIONS

<i>In \$000</i>	Purchases of services for periods ended September 30,				Amounts owing	
	three months		nine months		at the balance sheet dates	
	2017	2016	2017	2016	30 Sep 2017	31 Dec 2016
Lundin Petroleum AB	49	52	153	244	35	24
Namdo Management Services Ltd.	13	23	38	95	-	1
McCullough O'Connor Irwin LLP	3	3	28	44	-	-
<b>Total</b>	<b>65</b>	<b>78</b>	<b>219</b>	<b>383</b>	<b>35</b>	<b>25</b>

The Company receives services from various subsidiary companies of Lundin Petroleum AB ("Lundin"), a shareholder of the Company. Lundin charges during the three and nine months ended September 30, 2017 of \$49 (2016: \$52) and \$153 (2016: \$244) were comprised of technical service costs of \$1 (2016: \$nil) and \$1 (2016: \$3), investor relations services of \$6 (2016: \$8) and \$19 (2016: \$22), office rental, administrative and building services of \$42 (2016: \$44) and \$133 (2016: \$219).

Namdo Management Services Ltd. is a private corporation affiliated with a shareholder of the Company and has provided corporate administrative support and investor relations services to the Company.

McCullough O'Connor Irwin LLP is a law firm in which an officer of the Company is a partner and has provided legal services to the Company.

All transactions with related parties are in the normal course of business and are made on the same terms and conditions as with parties at arm's length.

Also refer to the discussion under the "Outstanding Share Data and Stock Options" section above.

## COMMITMENTS

### Atrush Block Production Sharing Contract

The Company is responsible for its pro-rata share of the costs incurred in executing the development work program on the Atrush Block which commenced on October 1, 2013.

As at September 30, 2017 the outstanding commitments of the Company were as follows:

<i>In \$000</i>	For the year ended September 30,				
	2018	2019	2020	Thereafter	Total
Atrush Block development	22,409	120	120	1,570	24,219
Office and other	41	-	-	-	41
Total commitments	<b>22,450</b>	<b>120</b>	<b>120</b>	<b>1,570</b>	<b>24,260</b>

Amounts relating to Atrush Block development represent the Company's unfunded paying interest share of the approved pre-2018 work program and other obligations under the Atrush PSC.

## PROPOSED TRANSACTIONS

The Company had no transactions pending at the date of this MD&A. However, as part of its normal business, the Company continues to evaluate new opportunities.

## CRITICAL ACCOUNTING ESTIMATES AND ACCOUNTING POLICIES

### Accounting Estimates

The consolidated financial statements of the Company have been prepared by management using IFRS. In preparing financial statements, management makes informed judgments and estimates that affect the reported amounts of assets and liabilities as of the date of the financial statements and affect the reported amounts of revenues and expenses during the period. Specifically, estimates are utilised in calculating depletion, asset retirement obligations, fair values of assets on acquisition of control, share-based payments, amortisation and impairment write-downs as required. Actual results could differ from these estimates and differences could be material.

### New Accounting Standards

There are no IFRS or interpretations that have been issued effective for financial years beginning on or after January 1, 2017 that would have a material impact on the Company's consolidated financial statements.

### Accounting Standards Issued But Not Yet Applied

Standards and interpretations issued but not yet effective up to the date of issuance of the financial statements are listed below.

*IFRS 9: Financial Instruments - Classification and Measurement*, addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and amended in October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than in net earnings, unless this creates an accounting mismatch. The new standard will be effective for annual periods beginning on or after January 1, 2018. The Company is in the process of assessing the full impact of IFRS 9 and intends to adopt IFRS 9 no later than the accounting period beginning on or after January 1, 2018.

*IFRS 15: Revenue from contracts with customers* is the new standard which replaces IAS 18 Revenue and IAS 11 Construction Contracts and provides a five step framework for application to customer contracts; identification of customer contract, identification of the contract performance obligations, determination of the contract price, allocation of the contract price to the contract performance obligations, and revenue recognition as performance obligations are satisfied. A new requirement where revenue is variable stipulates that revenue may only be recognised to the extent that it is highly probable that significant reversal of revenue will not occur. The new standard will be effective for annual periods beginning on or after January 1, 2018. The Company is in the process of assessing the full impact of IFRS 15 and intends to adopt IFRS 15 no later than the accounting period beginning on or after January 1, 2018.

*IFRS 16: Leases* will replace *IAS 17 Leases* and requires assets and liabilities arising from all leases, with some exceptions, to be recognized on the balance sheet. The new standard will be effective for annual periods beginning on or after January 1, 2019. The Company is in the process of assessing the full impact of IFRS 16 and intends to adopt IFRS 16 no later than the accounting period beginning on or after January 1, 2019.

### **Accounting for Oil and Gas Operations**

The Company follows the successful efforts method of accounting for its oil and gas operations. Under this method acquisition costs of oil and gas properties, costs to drill and equip exploratory and appraisal wells that are likely to result in proved reserves and costs of drilling and equipping development wells are capitalised and subject to annual impairment assessment.

Exploration well costs are initially capitalised and, if subsequently determined to have not found sufficient reserves to justify commercial production, are charged to exploration expense. Exploration well costs that have found sufficient reserves to justify commercial production, but whose reserves cannot be classified as proved, continue to be capitalised as long as sufficient progress is being made to assess the reserves and economic viability of the well and or related project.

Capitalised costs of proved oil and gas properties are depleted using the unit of production method based on estimated gross proved and probable reserves of petroleum and natural gas as determined by independent engineers. Successful exploratory wells and development costs and acquired resource properties are depleted over proved and probable reserves. Acquisition costs of unproved reserves are not depleted or amortised while under active evaluation for commercial reserves. Costs associated with significant development projects are depleted once commercial production commences. A revision to the estimate of proved and probable reserves can have a significant impact on earnings as they are a key component in the calculation of depreciation, depletion and accretion.

Producing properties and significant unproved properties are assessed annually, or more frequently as economic events dictate, for potential indicators of impairment. Economic events which would indicate impairment include:

- The period for which the Company has the right to explore in the specific area has expired during the period or will expire in the near future and is not expected to be renewed.
- Substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned.
- Exploration for and evaluation of resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the Company has decided to discontinue such activities in the specific area.
- Sufficient data exists to indicate that, although a development in the specific area is likely to proceed, the carrying amounts of E&E and oil and gas assets is unlikely to be recovered in full from successful development or by sale.
- Extended decreases in prices or margins for oil and gas commodities or products.
- A significant downwards revision in estimated volumes or an upward revision in future development costs.

For the purpose of impairment testing the assets are aggregated into cash generating unit (“CGU”) cost pools based on their ability to generate largely independent cash flows. The recoverable amount of a CGU is the greater of its fair value less costs to sell and its value in use. Fair value is determined to be the amount for which the asset could be sold in an arm’s length transaction. Value in use is determined by estimating the present value of the future net cash flows expected to be derived from the continued use of the asset or CGU.

Where conditions giving rise to the impairment subsequently reverse the effect of the impairment charge is also reversed as a credit to the statement of comprehensive income net of any depreciation that would have been charged since the impairment.



A substantial portion of the Company's exploration and development activities are conducted jointly with others.

There were no changes in the first nine months of 2017 to the reserves and resource estimates previously reported by the Company as at December 31, 2016.

### **Risks in estimating resources**

There are a number of uncertainties inherent in estimating the quantities of reserves and resources including factors which are beyond the control of the Company. Estimating reserves and resources is a subjective process and the results of drilling, testing, production and other new data subsequent to the date of an estimate may result in revisions to original estimates.

Reservoir parameters may vary within reservoir sections. The degree of uncertainty in reservoir parameters used to estimate the volume of hydrocarbons, such as porosity, net pay and water saturation, may vary. The type of formation within a reservoir section, including rock type and proportion of matrix and or fracture porosity, may vary laterally and the degree of reliability of these parameters as representative of the whole reservoir may be proportional to the overall number of data points (wells) and the quality of the data collected. Reservoir parameters such as permeability and effectiveness of pressure support may affect the recovery process. Recovery of reserves and resources may also be affected by the availability and quality of water, fuel gas, technical services and support, local operating conditions, security, performance of the operating company and the continued operation of well and plant equipment.

Additional risks associated with estimates of reserves and resources include risks associated with the oil and gas industry in general which include normal operational risks during drilling activity, development and production; delays or changes in plans for development projects or capital expenditures; the uncertainty of estimates and projections related to production, costs and expenses; health, safety, security and environmental risks; drilling equipment availability and efficiency; the ability to attract and retain key personnel; the risk of commodity price and foreign exchange rate fluctuations; the uncertainty associated with dealing with governments and obtaining regulatory approvals; performance and conduct of the Operator; and risks associated with international operations.

The Company's project is in the appraisal and development stages and, as such, additional information must be obtained by further appraisal drilling and testing to ultimately determine the economic viability of developing any of the contingent or prospective resources. There is no certainty that the Company will be able to commercially produce any portion of its contingent or prospective resources. Any significant change, in particular, if the volumetric resource estimates were to be materially revised downwards in the future, could negatively impact investor confidence and ultimately impact the Company's performance, share price and total market capitalisation.

The Company has engaged professional geologists and engineers to evaluate reservoir and development plans; however, process implementation risk remains. The Company's reserves and resource estimations are based on data obtained by the Company which has been independently evaluated by McDaniel.

### **FINANCIAL INSTRUMENTS**

The Company's financial instruments currently consist of cash, cash equivalents, advances to joint operations, other receivables, borrowings, accounts payable and accrued expenses, accrued interest on bonds, provisions for decommissioning costs, and current tax liabilities. The Company classifies its financial assets and liabilities at initial recognition in the following categories:

- Financial assets and liabilities at fair value through profit or loss are those assets and liabilities acquired principally for the purpose of selling or repurchasing in the short-term and are recognised at fair value. Transaction costs are expensed in the statement of comprehensive income and gains or losses arising from changes in fair value are also presented in the statement of comprehensive income within other gains and losses in the period in which they arise. Financial assets and liabilities at fair value through profit or loss are classified as current except for the portion expected to be realised or paid beyond twelve months of the balance sheet date, which is classified as non-current.
- Loans and receivables comprise of other receivables and cash and cash equivalents and are financial assets with fixed or determinable payments that are not quoted on an active market and are generally included within current assets due to their short-term nature. Loans and receivables are initially recognised at fair value and are subsequently measured at amortised cost using the effective interest method less any provision for impairment.

- Financial liabilities at amortised cost comprise of trade and other payables and are initially recognised at the fair value of the amount expected to be paid and are subsequently measured at amortised cost using the effective interest rate method. Financial liabilities are classified as current liabilities unless the Company has an unconditional right to defer settlement for at least 12 months after the balance sheet date.

With the exception of borrowings, accrued interest on bonds and provisions for decommissioning costs, which have fair value measurements based on valuation models and techniques where the significant inputs are derived from quoted prices or indices, the fair values of the Company's other financial instruments did not require valuation techniques to establish fair values as the instrument was either cash and cash equivalents or, due to the short term nature, readily convertible to or settled with cash and cash equivalents.

The Company is exposed in varying degrees to a variety of financial instrument related risks which are discussed in the following sections:

#### **Financial Risk Management Objectives**

The Company's management monitors and manages the Company's exposure to financial risks facing the operations. These financial risks include market risk (including commodity price, foreign currency and interest rate risks), credit risk and liquidity risk.

The Company does not presently hedge against these risks as the benefits of entering into such agreements is not considered to be significant enough as to outweigh the significant cost and administrative burden associated with such hedging contracts.

**Commodity price risk:** The prices that the Company receives for its oil and gas production may have a significant impact on the Company's revenues and cash flows provided by operations. World prices for oil and gas are characterised by significant fluctuations that are determined by the global balance of supply and demand and worldwide political developments and in particular the price received for the Company's oil and gas production in Kurdistan is dependent upon the Kurdistan government and its ability to export production outside of Iraq. The spot price of Brent Crude Oil, a reference in determining the price at which the Company can sell future oil production, has experienced a significant decline in the years 2014 and 2015. A further decline in the price at which the Company can sell future oil and gas production could adversely affect the amount of funds available for capital reinvestment purposes as well as the Company's value in use calculations for impairment test purposes.

The Company does not hedge against commodity price risk.

**Foreign currency risk:** The substantial portion of the Company's operations require purchases denominated in USD, which is the functional and reporting currency of the Company and also the currency in which the Company maintains the substantial portion of its cash and cash equivalents. Certain of its operations require the Company to make purchases denominated in foreign currencies, which are currencies other than USD and correspond to the various countries in which the Company conducts its business, most notably, Swiss Francs and Canadian dollars. As a result, the Company holds some cash and cash equivalents in foreign currencies and is therefore exposed to foreign currency risk due to exchange rate fluctuations between the foreign currencies and the USD. The Company considers its foreign currency risk is limited because it holds relatively insignificant amounts of foreign currencies at any point in time and since its volume of transactions in foreign currencies is currently relatively low. The Company has elected not to hedge its exposure to the risk of changes in foreign currency exchange rates.

**Interest rate risk:** The Company earns interest income on its cash and cash equivalents at both fixed and variable rates and is therefore exposed to interest rate risk due to a fluctuation in short-term interest rates.

The Company's policy on interest rate management is to maintain a certain amount of funds in the form of cash and cash equivalents for short-term liabilities and to have the remainder held on relatively short-term deposits.

The Group is highly leveraged though financing at the project level, for the continuation of Atrush project, and at the corporate level due to GEP's outstanding Senior Bonds and Super Senior Bonds. However, the Company is not exposed to interest rate risks associated with the bonds as the interest rate is fixed.

**Credit risk:** Credit risk is the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company is primarily exposed to credit risk on its cash and cash equivalents and other receivables.

The Company manages credit risk by monitoring counterparty ratings and credit limits and by maintaining excess cash and cash equivalents on account in instruments having a minimum credit rating of R-1 (mid) or better (as measured by Dominion Bond Rate Services) or the equivalent thereof according to a recognised bond rating service.

The carrying amounts of the Company's financial assets recorded in the consolidated financial statements represent the Company's maximum exposure to credit risk.

**Liquidity risk:** Liquidity risk is the risk that the Company will have difficulties meeting its financial obligations as they become due. In common with many oil and gas exploration companies, the Company raises financing for its exploration and development activities in discrete tranches in order to finance its activities for limited periods. The Company seeks to raise additional funding as and when required. The Company anticipates making substantial capital expenditures in the future for the acquisition, exploration, development and production of oil and gas reserves and as the Company's project moves further into the development stage, specific financing, including the possibility of additional debt, may be required to enable future development to take place. The financial results of the Company will impact its access to the capital markets necessary to undertake or complete future drilling and development programs. There can be no assurance that debt or equity financing, or future cash generated by operations, would be available or sufficient to meet these requirements or, if debt or equity financing is available, that it will be on terms acceptable to the Company.

The Company manages liquidity risk by maintaining adequate cash reserves and by continuously monitoring forecast and actual cash flows. Annual capital expenditure budgets are prepared, which are regularly monitored and updated as considered necessary. In addition, the Company requires authorisations for expenditure on both operating and non-operating projects to further manage capital expenditures.

## **RISKS AND UNCERTAINTIES**

ShaMaran Petroleum Corp. is engaged in the exploration, development and production of crude oil and natural gas and its operations are subject to various risks and uncertainties which include but are not limited to those listed below. If any of the risks described below materialise the effect on the Company's business, financial condition or operating results could be materially adverse.

The following sections describe material risks identified by the Company; however, risks and uncertainties of which the Company is not currently aware or currently believes to be immaterial could develop and may adversely affect the Company's business, financial condition or operating results. For more information on risk factors which may affect the Company's business refer also to the discussion of risks under the "Reserves and Resources" and "Financial Instruments" sections of this MD&A above, as well as to the "Risk Factors" section of its Annual Information Form, which is available for viewing both on the Company's web-site at [www.shamaranpetroleum.com](http://www.shamaranpetroleum.com) and on SEDAR at [www.sedar.com](http://www.sedar.com), under the Company's profile.

### *Political and Regional Risks*

**International operations:** Oil and gas exploration, development and production activities in emerging countries are subject to significant political, social and economic uncertainties which are beyond ShaMaran's control. Uncertainties include, but are not limited to, the risk of war, terrorism, criminal activity, expropriation, nationalisation, renegotiation or nullification of existing or future contracts, the imposition of international sanctions, a change in crude oil or natural gas pricing policies, a change in taxation policies, a limitation on the Company's ability to export, and the imposition of currency controls. The materialisation of these uncertainties could adversely affect the Company's business including, but not limited to, increased costs associated with planned projects, impairment or termination of future revenue generating activities, impairment of the value of the Company's assets and or its ability to meet its contractual commitments as they become due.

**Political uncertainty:** ShaMaran's assets and operations are located in Kurdistan, a federally recognised semi-autonomous political region in Iraq, and may be influenced by political developments between Kurdistan and the Iraq federal government, as well as political developments of neighbouring states within MENA region, Turkey, and surrounding areas. Kurdistan and Iraq have a history of political and social instability. As a result, the Company is subject to political, economic and other uncertainties that are not within its control. These uncertainties include, but are not limited to, changes in government policies and legislation, adverse legislation or determinations or rulings by governmental authorities and disputes between the Iraq federal government and Kurdistan.

Events in Kurdistan since the independence referendum held on September 25, 2017 have reduced the autonomy of Kurdistan Regional Government in favour of the Iraq federal government, in particular to control and manage entry into, and exit from, Kurdistan of people, goods and services. There is a risk that the level of authority of the KRG, and corresponding systems previously in place, continue to be transferred to the Iraq federal government. Changes to the incumbent political regime could result in delays in operations and additional costs which could materially adversely impact the operations and future prospects of the Company and could have a material adverse effect on the Company's business and financial condition. Refer also to the discussion in the section below under "Risks associated with petroleum contracts in Iraq."

**International boundary disputes:** Although Kurdistan is recognised by the Iraq constitution as a semi-autonomous region, its geographical extent is neither defined in the Iraq constitution nor agreed in practice between the Federal Government and the KRG. There are ongoing differences between the KRG and the Federal Government regarding certain areas which are commonly known as “disputed territories”. The Company believes that its current area of operation is not within the “disputed territories”.

#### *Industry and Market Risks*

**Exploration, development and production risks:** ShaMaran’s business is subject to all of the risks and hazards inherent in businesses involved in the exploration, development, production and marketing of oil and natural gas, many of which cannot be overcome even with a combination of experience, knowledge and careful evaluation. The risks and hazards typically associated with oil and gas operations include drilling of unsuccessful wells, fire, explosion, blowouts, sour gas releases, pipeline ruptures and oil spills, each of which could result in substantial damage to oil and natural gas wells, production facilities, other property or the environment, or in personal injury. The Company is not fully insured against all of these risks, nor are all such risks insurable and, as a result, these risks could still result in adverse effects to the Company’s business not fully mitigated by insurance coverage including, but not limited to, increased costs or losses due to events arising from accidents or other unforeseen outcomes including cleanup, repair, containment and or evacuation activities, settlement of claims associated with injury to personnel or property, and or loss of revenue as a result of downtime due to accident.

**General market conditions:** ShaMaran’s business and operations depend upon conditions prevailing in the oil and gas industry including the current and anticipated prices of oil and gas and the global economic activity. A reduction of the oil price, a general economic downturn, or a recession could result in adverse effects to the Company’s business including, but not limited to, reduced cash flows associated with the Company’s future oil and gas sales. Worldwide crude oil commodity prices are expected to remain volatile in the near future as a result of global supply and demand balances, actions taken by the Organization of the Petroleum Exporting Countries (“OPEC”), and ongoing global credit and liquidity concerns. This volatility may affect the Corporation’s ability to obtain equity or debt financing on acceptable terms.

**Competition:** The petroleum industry is intensely competitive in all aspects including the acquisition of oil and gas interests, the marketing of oil and natural gas, and acquiring or gaining access to necessary drilling and other equipment and supplies. ShaMaran competes with numerous other companies in the search for and acquisition of such prospects and in attracting skilled personnel. ShaMaran’s competitors include oil companies which have greater financial resources, staff and facilities than those of the Company. ShaMaran’s ability to increase reserves in the future will depend on its ability to develop its present property, to select and acquire suitable producing properties or prospects on which to conduct future exploration and to respond in a cost-effective manner to economic and competitive factors that affect the distribution and marketing of oil and natural gas.

**Reliance on key personnel:** ShaMaran’s success depends in large measure on certain key personnel and directors. The loss of the services of such key personnel could negatively affect ShaMaran’s ability to deliver projects according to plan and result in increased costs and delays. ShaMaran has not obtained key person insurance in respect of the lives of any key personnel. In addition, competition for qualified personnel in the oil and gas industry is intense and there can be no assurance that ShaMaran will be able to attract and retain the skilled personnel necessary for the operation and development of its business.

#### *Business Risks*

**Risks associated with petroleum contracts in Iraq:** The Iraq oil ministry has historically disputed the validity of the KRG’s production sharing contracts and, as a result indirectly, the Company’s right and title to its oil and gas assets. The KRG is disputing the claims and has stated that the contracts are compliant with the Iraq constitution. At the present time there is no assurance that production sharing contracts agreed with the KRG are enforceable or binding in accordance with ShaMaran’s interpretation of their terms or that, if breached, the Company would have remedies. The Company believes that it has valid title to its oil and gas assets and the right to explore for and produce oil and gas from such assets under the Atrush PSC. However, should the Iraq federal government pursue and be successful in a claim that the production sharing contracts agreed with the KRG are invalid, or should any unfavourable changes develop which impact on the economic and operating terms of the Atrush PSC, it could result in adverse effects to the Company’s business including, but not limited to, impairing the Company’s claim and title to assets held, and or increasing the obligations required, under the Atrush PSC.

**Government regulations, licenses and permits:** The Company is affected by changes in taxes, regulations and other laws or policies affecting the oil and gas industry generally as well as changes in taxes, regulations and other laws or policies applicable to oil and gas exploration and development in Kurdistan specifically. The Company's ability to execute its projects may be hindered if it cannot secure the necessary approvals or the discretion is exercised in a manner adverse to the Company. The taxation system applicable to the operating activities of the Company in Kurdistan is pursuant to the Oil and Gas Law governed by general Kurdistan tax law and the terms of its production sharing contracts. However, it is possible that the arrangements under the production sharing contracts may be overridden or negatively affected by the enactment of any future oil and gas or tax law in Iraq or Kurdistan which could result in adverse effects to the Company's business including, but not limited to, increasing the Company's expected future tax obligations associated with its activities in Kurdistan.

**Marketing, markets and transportation:** The export of oil and gas and payments relating to such exports from Kurdistan remains subject to uncertainties which could negatively impact on ShaMaran's ability to export oil and gas and receive payments relating to such exports. Potential government regulation relating to price, quotas and other aspects of the oil and gas business could result in adverse effects to the Company's business including, but not limited to, impairing the Company's ability to export and sell oil and gas and receive full payment for all sales of oil and gas.

**Payments for oil exports:** Companies who have exported oil from Kurdistan since the year 2009 have reported significant amounts outstanding for past oil exports. Cash payments to oil companies for oil exported from Kurdistan has been under control of the KRG since the beginning of exports in 2009. Since February 1, 2016, when the KRG announced an interim measure whereby monthly payments to oil companies would be made based on an agreed mechanism, the KRG has established a relatively consistent record of delivering regular monthly payments to oil companies for their entitlement revenues in respect of monthly petroleum production, with producers' most recent reports indicating having received in November 2017 full payments for August 2017 oil exported. Nevertheless there remains a risk that the Company may face significant delays in the receipt of cash for its entitlement share of future oil exports.

**Paying interest:** On November 7, 2016 the KRG exercised its back-in right under the terms of the Atrush PSC and acquired a 25% participating interest. Upon the commencement of oil production exports from Atrush the KRG is required to pay its share of project development costs. There is a risk that the Contractors may be exposed to fund the KRG share of future project development costs.

**Default under the Atrush PSC and Atrush JOA:** Should the Company fail to meet its obligations under the Atrush PSC and or Atrush Block joint operating agreement ("Atrush JOA") it could result in adverse effects to the Company's business including, but not limited to, a default under one or both of these contracts, the termination of future revenue generating activities of the Company and impairment of the Company's ability to meet its contractual commitments as they become due.

**Kurdistan legal system:** The Kurdistan Region of Iraq has a less developed legal system than that of many more established regions. This could result in risks associated with predicting how existing laws, regulations and contractual obligations will be interpreted, applied or enforced. In addition it could make it more difficult for the Company to obtain effective legal redress in courts in case of breach of law, regulation or contract and to secure the implementation of arbitration awards and may give rise to inconsistencies or conflicts among various laws, regulations, decrees or judgments. The Company's recourse may be limited in the event of a breach by a government authority of an agreement governing the Atrush PSC in which ShaMaran acquires or holds an interest.

**Enforcement of judgments in foreign jurisdictions:** The Company is party to contracts with counterparties located in a number of countries, most notably Kurdistan. Certain of its contracts are subject to English law with legal proceedings in England. However, the enforcement of any judgments thereunder against a counterparty will be a matter of the laws of the jurisdictions where counterparties are domiciled.

**Change of control in respect of the Atrush PSC:** The Atrush PSC definition of "change of control" in a Contractor includes a change of voting majority in the Contractor, or in a parent company, provided the value of the interest in the Atrush field represents more than 50% of the market value of assets in the Company. Due to the limited amount of other assets held by the Company this will apply to a change of control in GEP or any of its parent companies. Change of control requires the consent of KRG or it will trigger a default under the Atrush PSC.

## *Project and Operational Risks*

**Shared ownership and dependency on partners:** ShaMaran's operations are to a significant degree conducted together with one or more partners through contractual arrangements with the execution of the operations being undertaken by the Operator in accordance with the terms of the Atrush JOA. As a result, ShaMaran has limited ability to exercise influence over the deployment of those assets or their associated costs and this could adversely affect ShaMaran's financial performance. If the operator or other partners fail to perform, ShaMaran may, among other things, risk losing rights or revenues or incur additional obligations or costs in order to itself perform in place of its partners. If a dispute would arise with one or more partners such dispute may have significant negative effects on the Company's operations relating to its projects.

**Security risks:** Kurdistan and other regions in Iraq have a history of political and social instability which have culminated in security problems which may put at risk the safety of the Company's personnel, interfere with the efficient and effective execution of the Company's operations and ultimately result in significant losses to the Company. There have been no significant security incidents in the Company's area of operation.

**Risks relating to infrastructure:** The Company is dependent on access to available and functioning infrastructure (including third party services in Kurdistan) relating to the properties on which it operates, such as roads, power and water supplies, pipelines and gathering systems. If any infrastructure or systems failures occur or access is not possible or does not meet the requirements of the Company, the Company's operations may be significantly hampered which could result in lower production and sales and or higher costs.

**Environmental regulation and liabilities:** Drilling for and producing, handling, transporting and disposing of oil and gas and petroleum by-products are activities that are subject to extensive regulation under national and local environmental laws, including in those countries in which ShaMaran currently operates. The Company has implemented health, safety and environment policies since its incorporation, complies with industry environmental practices and guidelines for its operations in Kurdistan and is currently in compliance with these obligations in all material aspects. Environmental protection requirements have not, to date, had a significant effect on the capital expenditures and competitive position of ShaMaran. Future changes in environmental or health and safety laws, regulations or community expectations governing the Company's operations could result in adverse effects to the Company's business including, but not limited to, increased monitoring, compliance and remediation costs and or costs associated with penalties or other sanctions imposed on the Company for non-compliance or breach of environmental regulations.

**Risk relating to community relations / labour disruptions:** The Company's operations may be located in or near communities that may regard operations as detrimental to their environmental, economic or social circumstances. Negative community reactions and any related labour disruptions or disputes could increase operational costs and result in delays in the execution of projects.

**Petroleum costs and cost recovery:** Under the terms of the Atrush PSC the KRG is entitled to conduct an audit to verify the validity of incurred petroleum costs which the Operator has reported to the KRG and is therefore entitled under the terms of the Atrush PSC to recover through cash payments from future petroleum production. No such audit has to date taken place. Should any future audits result in negative findings concerning the validity of reported incurred petroleum costs the Company's petroleum cost recovery entitlement could ultimately be reduced.

**Legal claims and disputes:** The Company may suffer unexpected costs or other losses if a counterparty to any contractual arrangement entered into by the Company does not meet its obligations under such agreements. In particular, the Company cannot control the actions or omissions of its partners in the Atrush PSC. If such parties were to breach the terms of the Atrush PSC or any other documents relating to the Company's interest in the Atrush PSC, it could cause the KRG to revoke, terminate or adversely amend the Atrush PSC.

**Uninsured losses and liabilities:** Although the Company maintains insurance in accordance with industry standards to address risks relating to its operations, the insurance coverage may under certain circumstances not protect it from all potential losses and liabilities that could result from its operations.

**Availability of equipment and services:** ShaMaran's oil and natural gas exploration and development activities are dependent on the availability of third party services, drilling and related equipment and qualified staff in the particular areas where such activities are or will be conducted. Shortages of such equipment or staff may affect the availability of such equipment to ShaMaran and may delay and or increase the cost of ShaMaran's exploration and development activities.

**Early stage of development:** ShaMaran has conducted oil and gas exploration and development activities in Kurdistan for approximately seven years. The current operations are in an appraisal and development stage and there can be no assurance that ShaMaran's operations will be profitable in the future or will generate sufficient cash flow to satisfy its future commitments.

### *Financial and Other Risks*

**Financial statements prepared on a going concern basis:** The Company's financial statements have been prepared on a going concern basis under which an entity is considered to be able to realise its assets and satisfy its liabilities in the ordinary course of business. ShaMaran's operations to date have been primarily financed by debt and equity financing. The Company's future operations are dependent upon the identification and successful completion of additional equity or debt financing or the achievement of profitable operations. There can be no assurances that the Company will be successful in completing additional financing or achieving profitability. The consolidated financial statements do not give effect to any adjustments relating to the carrying values and classification of assets and liabilities that would be necessary should ShaMaran be unable to continue as a going concern.

**Substantial capital requirements:** ShaMaran anticipates making substantial capital expenditures in the future for the acquisition, exploration, development and production of oil and gas. ShaMaran's results could impact its access to the capital necessary to undertake or complete future drilling and development programs. To meet its operating costs and planned capital expenditures, ShaMaran may require financing from external sources, including from the sale of equity and debt securities. There can be no assurance that such financing will be available to the Company or, if available, that it will be offered on terms acceptable to ShaMaran. If ShaMaran or any of its partners in the oil asset are unable to complete minimum work obligations on the Atrush PSC, this PSC could be relinquished under applicable contract terms.

**Dilution:** The Company may make future acquisitions or enter into financings or other transactions involving the issuance of securities of the Company. If additional financing is raised through the issuance of equity or convertible debt securities, control of the Company may change and the interests of shareholders in the net assets of ShaMaran may be diluted.

**Tax legislation:** The Company has entities incorporated and resident for tax purposes in Canada, the Cayman Islands, the Kurdistan Region of Iraq, the Netherlands, Switzerland and the United States of America. Changes in the tax legislation or tax practices in these jurisdictions may increase the Company's expected future tax obligations associated with its activities in such jurisdictions.

**Capital and lending markets:** As a result of general economic uncertainties and, in particular, the potential lack of risk capital available to the junior resource sector, the Company, along with other junior resource entities, may have reduced access to bank debt and to equity. As future capital expenditures will be financed out of funds generated from operations, bank borrowings if available, and possible issuances of debt or equity securities, the Company's ability to do so is dependent on, among other factors, the overall state of lending and capital markets and investor and lender appetite for investments in the energy industry generally, and the Company's securities in particular. To the extent that external sources of capital become limited or unavailable or available only on onerous terms, the Company's ability to invest and to maintain existing assets may be impaired, and its assets, liabilities, business, financial condition and results of operations may be materially and adversely affected as a result.

**Uncertainty in financial markets:** In the future the Company is expected to require financing to grow its business. The uncertainty which has periodically affected the financial markets in recent years and the possibility that financial institutions may consolidate or go bankrupt has reduced levels of activity in the credit markets which could diminish the amount of financing available to companies. The Company's liquidity and its ability to access the credit or capital markets may also be adversely affected by changes in the financial markets and the global economy.

**Conflict of interests:** Certain directors of ShaMaran are also directors or officers of other companies, including oil and gas companies, the interests of which may, in certain circumstances, come into conflict with those of ShaMaran. If and when a conflict arises with respect to a particular transaction, the affected directors must disclose the conflict and abstain from voting with respect to matters relating to the transaction.

### *Risks Related to the GEP's Senior Bonds and Super Senior Bonds*

**Possible termination of Atrush PSC / bond agreements in event of default scenario:** Should GEP default its obligations under either of the bond agreements GEP may also not be able to fulfil its obligations under the Atrush PSC and or Atrush JOA, with the effect that these contracts may be terminated or limited. In addition, should GEP default its obligations under the Atrush PSC and or Atrush JOA, with the effect that these contracts may be terminated or limited, GEP may also default in respect of its obligations under the bond agreements. Either default scenario could result in the termination of the Company's future revenue generating activities and impair the Company's ability to meet its contractual commitments as they become due.

**Ability to service indebtedness:** GEP's ability to make scheduled payments on or to refinance its obligations under the bond agreements will depend on GEP's financial and operating performance which, in turn, will be subject to prevailing economic and competitive conditions beyond GEP's control. It is possible that GEP's activities will not generate sufficient funds to make the required interest payments which could, among other things, result in an event of default under the bond agreements.

**Significant operating and financial restrictions:** The terms and conditions of the bond agreements contain restrictions on GEP's and the Guarantors' activities which restrictions may prevent GEP and the Guarantors from taking actions that it believes would be in the best interest of GEP's business, and may make it difficult for GEP to execute its business strategy successfully or compete effectively with companies that are not similarly restricted. No assurance can be given that it will be granted the necessary waivers or amendments if for any reason GEP is unable to comply with the terms of the bond agreements. A breach of any of the covenants and restrictions could result in an event of default under the bond agreements.

**Mandatory prepayment events:** Under the terms of the bond agreements the bonds are subject to mandatory prepayment by GEP on the occurrence of certain specified events, including if (i) the ownership in the Atrush Block is reduced to below 20.10% (ii) ShaMaran Petroleum Corp. ceases to indirectly own, or ShaMaran Ventures B.V. ceases to directly own, 100% of the shares in GEP (iii) GEP invests in any assets or enters into any other activities unrelated to the Atrush PSC or (iv) an event of default occurs under either of the bond agreements. Following an early redemption after the occurrence of a mandatory prepayment event, it is possible that GEP will not have sufficient funds to make the required redemption of the bonds which could, among other things, result in an event of default under the bond agreements.

## FORWARD LOOKING INFORMATION

This report contains forward-looking information and forward-looking statements. Forward-looking information concerns possible events or financial performance that is based on management's assumptions concerning anticipated developments in the Company's operations; the adequacy of the Company's financial resources; financial projections, including, but not limited to, estimates of capital and operating costs, production rates, commodity prices, exchange rates, net present values; and other events and conditions that may occur in the future. Information concerning the interpretation of drill results and reserve estimates also may be deemed to be forward-looking information, as it constitutes a prediction of what might be found to be present if and when a project is actually developed.

Forward-looking statements are statements that are not historical and are frequently, but not always, identified by the words such as "expects," "anticipates," "believes," "intends," "estimates," "potential," "possible," "outlook", "budget" and similar expressions, or statements that events, conditions or results "will," "may," "could," or "should" occur or be achieved. Forward-looking statements are statements about the future and are inherently uncertain, and actual achievements of the Company or other future events or conditions may differ materially from those reflected in the forward-looking statements due to a variety of risks, uncertainties and other factors, including, without limitation, those described in this MD&A.

The Company's forward-looking information and forward-looking statements are based on the beliefs, expectations and opinions of management on the date the statements are made. Management is regularly considering and evaluating assumptions that will impact on future performance. Those assumptions are exposed to generic risks and uncertainties as well as risks and uncertainties that are specifically related to the Company's operations.

The Company cautions readers regarding the reliance placed by them on forward-looking information as by its nature, it is based on current expectations regarding future events that involve a number of assumptions, inherent risks and uncertainties, which could cause actual results to differ materially from those anticipated by the Company.

Except as required by applicable securities legislation the Company assumes no obligation to update its forward-looking information and forward-looking statements in the future. For the reasons set forth above, investors should not place undue reliance on forward-looking information and forward-looking statements.

**Reserves and resources:** ShaMaran Petroleum Corp.'s reserve and contingent resource estimates are as at December 31, 2016, and have been prepared and audited in accordance with National Instrument 51-101 Standards of Disclosure for Oil and Gas Activities ("NI 51-101") and the Canadian Oil and Gas Evaluation Handbook ("COGE Handbook"). Unless otherwise stated, all reserves estimates contained herein are the aggregate of "proved reserves" and "probable reserves", together also known as "2P reserves". Possible reserves are those additional reserves that are less certain to be recovered than probable reserves. There is a 10% probability that the quantities actually recovered will equal or exceed the sum of proved plus probable plus possible reserves.



**Contingent resources:** Contingent resources are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations using established technology or technology under development, but are not currently considered to be commercially recoverable due to one or more contingencies. Contingencies may include factors such as economic, legal, environmental, political and regulatory matters or a lack of markets. There is no certainty that it will be commercially viable for the Company to produce any portion of the contingent resources.

**BOEs:** BOEs may be misleading, particularly if used in isolation. A BOE conversion ratio of 6 Mcf per 1 Bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

#### **ADDITIONAL INFORMATION**

Additional information related to the Company, including its Annual Information Form, is available on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Company's web-site at [www.shamaranpetroleum.com](http://www.shamaranpetroleum.com).

**SHAMARAN PETROLEUM CORP.**  
**Condensed Interim Consolidated Statement of Comprehensive Income (unaudited)**  
*(Expressed in thousands of United States dollars, except for per share data)*

	Note	Three months ended September 30,		Nine months ended September 30,	
		2017	2016	2017	2016
Revenues	5	3,782	-	3,782	-
Cost of goods sold:					
Lifting costs	7	(2,302)	-	(2,302)	-
Depletion	7	(2,281)	-	(2,281)	-
Gross loss		(801)	-	(801)	-
Service fee income		-	90	-	120
Share based payments expense		-	(58)	(11)	(192)
Depreciation and amortisation expense		(8)	(12)	(26)	(34)
General and administrative expense		(1,637)	(695)	(3,545)	(3,006)
<b>Loss from operating activities</b>		<b>(2,446)</b>	<b>(675)</b>	<b>(4,383)</b>	<b>(3,112)</b>
Finance income	8	525	16	1,288	39
Finance cost	9	(3,436)	(1,393)	(6,393)	(4,228)
<b>Net finance cost</b>		<b>(2,911)</b>	<b>(1,377)</b>	<b>(5,105)</b>	<b>(4,189)</b>
<b>Loss before income tax expense</b>		<b>(5,357)</b>	<b>(2,052)</b>	<b>(9,488)</b>	<b>(7,301)</b>
Income tax expense	10	(36)	(14)	(71)	(55)
<b>Loss for the period</b>		<b>(5,393)</b>	<b>(2,066)</b>	<b>(9,559)</b>	<b>(7,356)</b>
<b>Other comprehensive income</b>					
<i>Items that may be reclassified to profit or loss:</i>					
Currency translation differences		1	(11)	35	53
Actuarial loss on defined pension plan		-	-	-	(505)
<b>Total other comprehensive income</b>		<b>1</b>	<b>(11)</b>	<b>35</b>	<b>(452)</b>
<b>Total comprehensive loss for the period</b>		<b>(5,392)</b>	<b>(2,077)</b>	<b>(9,524)</b>	<b>(7,808)</b>
<b>Loss in dollars per share:</b>					
Basic and diluted		-	-	-	-

*The accompanying Notes are an integral part of these condensed interim consolidated financial statements.*

**SHAMARAN PETROLEUM CORP.**  
**Condensed interim Consolidated Balance Sheet (unaudited)**  
*(Expressed in thousands of United States dollars)*

	Note	At September 30, 2017	At December 31, 2016
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	11	189,365	174,658
Intangible assets	12	89,280	89,007
Loans and receivables	13	48,580	46,114
		<b>327,225</b>	<b>309,779</b>
<b>Current assets</b>			
Loans and receivables	13	19,428	7,252
Cash and cash equivalents		6,982	4,416
Other current assets		279	224
		<b>26,689</b>	<b>11,892</b>
<b>Total assets</b>		<b>353,914</b>	<b>321,671</b>
<b>Liabilities and equity</b>			
<b>Current liabilities</b>			
Accounts payable and accrued expenses	14	6,054	6,434
Accrued interest expense on bonds	15	7,715	2,503
		<b>13,769</b>	<b>8,937</b>
<b>Non-current liabilities</b>			
Borrowings	15	175,345	165,129
Provisions	16	9,227	8,869
Pension liability		1,661	1,670
		<b>186,233</b>	<b>175,668</b>
<b>Total liabilities</b>		<b>200,002</b>	<b>184,605</b>
<b>Equity</b>			
Share capital	17	637,538	611,179
Share based payments reserve		6,495	6,484
Cumulative translation adjustment		(26)	(61)
Accumulated deficit		(490,095)	(480,536)
<b>Total equity</b>		<b>153,912</b>	<b>137,066</b>
<b>Total liabilities and equity</b>		<b>353,914</b>	<b>321,671</b>

*The accompanying Notes are an integral part of these condensed interim consolidated financial statements.*

Signed on behalf of the Board of Directors:

/s/Ashley Heppenstall  
C. Ashley Heppenstall, Director

/s/Keith Hill  
Keith C. Hill, Director

**SHAMARAN PETROLEUM CORP.**  
**Condensed Interim Consolidated Statement of Changes in Equity (unaudited)**  
*(Expressed in thousands of United States dollars)*

	Share capital	Share based payments reserve	Cumulative translation adjustment	Accumulated deficit	Total
<b>Balance at January 1, 2016</b>	<b>593,179</b>	<b>6,235</b>	<b>(83)</b>	<b>(471,395)</b>	<b>127,936</b>
Total comprehensive loss for the period:					
Loss for the period	-	-	-	(7,356)	<b>(7,356)</b>
Other comprehensive income / (loss)	-	-	53	(505)	<b>(452)</b>
	-	-	53	(7,861)	<b>(7,808)</b>
Transactions with owners in their capacity as owners:					
Share based payments expense	-	192	-	-	<b>192</b>
Shares issued	18,000	-	-	-	<b>18,000</b>
	18,000	192	-	-	<b>18,192</b>
<b>Balance at September 30, 2016</b>	<b>611,179</b>	<b>6,427</b>	<b>(30)</b>	<b>(479,256)</b>	<b>138,320</b>
<b>Balance at December 31, 2016</b>	<b>611,179</b>	<b>6,484</b>	<b>(61)</b>	<b>(480,536)</b>	<b>137,066</b>
Total comprehensive loss for the period:					
Loss for the period	-	-	-	(9,559)	<b>(9,559)</b>
Other comprehensive income	-	-	35	-	<b>35</b>
	-	-	35	(9,559)	<b>(9,524)</b>
Transactions with owners in their capacity as owners:					
Share based payments expense	-	11	-	-	<b>11</b>
Shares issued on private placement	27,281	-	-	-	<b>27,281</b>
Transaction costs	(922)	-	-	-	<b>(922)</b>
	26,359	11	-	-	<b>26,370</b>
<b>Balance at September 30, 2017</b>	<b>637,538</b>	<b>6,495</b>	<b>(26)</b>	<b>(490,095)</b>	<b>153,912</b>

*The accompanying Notes are an integral part of these condensed interim consolidated financial statements.*

**SHAMARAN PETROLEUM CORP.**  
**Condensed Interim Consolidated Statement of Cash Flows (unaudited)**  
*(Expressed in thousands of United States dollars)*

	Note	Three months ended September 30,		Nine months ended September 30,	
		2017	2016	2017	2016
<b>Operating activities</b>					
Loss for the period		(5,393)	(2,066)	(9,559)	(7,356)
Adjustments for:					
Interest expense on borrowings – net		3,431	1,375	6,375	4,103
Depreciation, depletion and amortisation expense		2,290	12	2,308	34
Unwinding discount on decommissioning provision		7	19	-	62
Share based payments expense		-	58	11	192
Pension expense		-	-	11	14
Foreign exchange (gain) / loss	8,9	(7)	(10)	19	64
Interest income		(518)	(6)	(1,288)	(39)
Changes in current tax liabilities		-	(8)	-	(31)
Changes in other current assets		(40)	(41)	(55)	(84)
Changes in accounts payable and accrued expenses		(81)	(4,317)	(380)	(4,970)
Changes in accounts receivables on Atrush oil sales		(3,782)	-	(3,782)	-
<b>Net cash outflows to operating activities</b>		<b>(4,093)</b>	<b>(4,984)</b>	<b>(6,340)</b>	<b>(8,011)</b>
<b>Investing activities</b>					
Interest received on cash deposits		29	6	94	39
Purchases of intangible assets		(149)	(58)	(185)	(56)
Purchase of property, plant and equipment		(1,435)	(8,641)	(7,746)	(25,186)
Loans and receivables – advances to joint venture partner		(2,133)	-	(9,610)	-
<b>Net cash outflows to investing activities</b>		<b>(3,688)</b>	<b>(8,693)</b>	<b>(17,447)</b>	<b>(25,203)</b>
<b>Financing activities</b>					
Proceeds from shares issued		-	-	27,281	-
Share issue related transaction costs		-	-	(922)	-
Proceeds from shares issued		-	-	-	17,000
Bond transaction costs		-	-	-	(780)
<b>Net cash inflows from financing activities</b>		<b>-</b>	<b>-</b>	<b>26,359</b>	<b>16,220</b>
Effect of exchange rate changes on cash and cash equivalents		4	(3)	(6)	(14)
<b>Change in cash and cash equivalents</b>		<b>(7,777)</b>	<b>(13,680)</b>	<b>2,566</b>	<b>(17,008)</b>
Cash and cash equivalents, beginning of the period		14,759	28,593	4,416	31,921
<b>Cash and cash equivalents, end of the period*</b>		<b>6,982</b>	<b>14,913</b>	<b>6,982</b>	<b>14,913</b>
<b>*Inclusive of restricted cash</b>		<b>-</b>	<b>8,715</b>	<b>-</b>	<b>8,715</b>

*The accompanying Notes are an integral part of these condensed interim consolidated financial statements.*

**SHAMARAN PETROLEUM CORP.**  
**Notes to the Condensed Interim Consolidated Financial Statements (unaudited)**  
**For the three and nine months ended September 30, 2017**  
*(Expressed in thousands of United States dollars unless otherwise stated)*

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**1. General information**

ShaMaran Petroleum Corp. (“ShaMaran” and together with its subsidiaries the “Company”) is incorporated under the Business Corporations Act, British Columbia, Canada. The address of the registered office is Suite 2600 Oceanic Plaza, 1066 West Hastings Street, Vancouver, British Columbia V6E 3X1. The Company’s shares trade on the TSX Venture Exchange and NASDAQ First North Exchange (Stockholm) under the symbol “SNM”.

The Company is engaged in the business of oil and gas exploration and development and is currently in the first phase of the development program in respect of the Atrush Block production sharing contract (“Atrush PSC”) related to a petroleum property located in the Kurdistan Region of Iraq (“Kurdistan”). Oil production on the Atrush Block commenced on July 3, 2017.

**2. Basis of preparation and going concern**

**a. Basis of preparation**

These unaudited condensed interim consolidated financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting, under International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and have been prepared following the same accounting policies and methods of application as those in the Company’s audited annual consolidated financial statements for the year ended December 31, 2016. The policies applied in these interim consolidated financial statements are based on IFRS which were outstanding and effective as of November 16, 2017, the date these interim consolidated financial statements were approved and authorised for issuance by the Company’s board of directors (“the Board”).

The disclosures provided below are incremental to those included with the Company’s annual consolidated financial statements. Certain information and disclosures normally included in the Notes to the annual consolidated financial statements have been condensed or have been disclosed on an annual basis only. Accordingly, these interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2016.

**b. Going concern**

These condensed interim consolidated financial statements have been prepared on the going concern basis which assumes that the Company will be able to realise into the foreseeable future its assets and liabilities in the normal course of business as they come due. Management has applied significant judgment in preparing forecasts supporting the going concern assumption. Specifically, management has made assumptions regarding projected oil sale volumes and pricing, and the timing and extent of capital, operating, and general and administrative expenditures.

At September 30, 2017 ShaMaran held cash and cash equivalents of \$7.0 million. Combined cash flows from management forecasts of Atrush oil sales, spending on Atrush development, bond coupon interest and technical and administrative costs in support of Atrush operations is projected to result in net cash inflows of \$22 million for the 12 months ended September 30, 2018. The oil sales volume assumptions reflect production reaching a rate of 27,000 barrels of oil per day in 2017 which is the planned capacity of the Atrush production facility at 90% uptime and that all crude oil produced from Atrush will be delivered, sold and paid for in accordance with the terms of the Atrush PSC and collected within three months following the month of production. The forecasted revenue cash flows are based on Dated Brent forward contract prices as of the balance sheet date and a \$16 discount for transportation costs and oil quality differentials consistent with the agreement for the sale of Atrush oil exports between the Atrush Non-Government Contractors and the Kurdistan Regional Government (“KRG”). The timing and extent of Atrush development costs is based on the Operator’s latest forecasts for the Atrush work program while the technical and administrative support costs are management’s latest estimates for these forthcoming requirements.

**SHAMARAN PETROLEUM CORP.**  
**Notes to the Condensed Interim Consolidated Financial Statements (unaudited)**  
**For the three and nine months ended September 30, 2017**  
*(Expressed in thousands of United States dollars unless otherwise stated)*

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Events in Kurdistan since the independence referendum held on September 25, 2017 suggest an increase in the potential for political instability within the region. In case there are delays in the forecasted receipt of cash from the sale of oil exports or in the magnitude of those cash receipts, which are under the control of the KRG, and the Company was unable to defer certain planned cost activities, the Company could, by the first quarter of 2018, require additional liquidity in order to fund the forecasted Atrush operating and development costs thereafter. Failure to meet development commitments could put the Atrush PSC and the Company's bond agreements at risk of forfeiture.

Management continues to monitor its financing requirements and is considering a number of financing alternatives in relation to the November 2018 maturity of the Company's Senior Bonds and Super Senior Bonds debts. In the event that the Company could not secure external financing in sufficient amount and in time to meet its obligations as they come due, the Company may be required to take measures such as divestment of assets and or further renegotiation of its existing debt. Should this not be successful, there is a risk that the Company would be subject to a partial or complete reorganization, or that the Company is declared bankrupt. The potential that the Company's financial resources are insufficient to fund its appraisal, development and production activities for the next 12 months, particularly in case there are unforeseen delays in receipt of funds from oil sales and or in the case the Company is unable to secure a solution to finance the maturing bonds on or before they come due, indicates a material uncertainty which may cast significant doubt over the Company's ability to continue as a going concern. These condensed interim consolidated financial statements do not include the adjustments that would result if the Company is unable to continue as a going concern.

Refer also to Notes 15, 17 and 19.

### **3. Critical accounting judgments and key sources of estimation uncertainty**

Areas of critical accounting judgments that have the most significant effect on the amounts recognized in the financial statements are disclosed in Note 4 of the Company's audited consolidated financial statements for the year ended December 31, 2016.

### **4. New accounting standards for 2018**

New accounting standards which will come into effect for annual periods beginning on or after January 1, 2018 are discussed below.

*IFRS 9: Financial Instruments - Classification and Measurement*, addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and amended in October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than in net earnings, unless this creates an accounting mismatch. The Company plans to adopt the new standard when it comes into effect for reporting periods following January 1, 2018. A preliminary assessment has been made on the result of adopting this new standard and the Company anticipates that it will not result in material changes to its financial statements.

**SHAMARAN PETROLEUM CORP.**  
**Notes to the Condensed Interim Consolidated Financial Statements (unaudited)**  
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*IFRS 15: Revenue from contracts with customers* is the new standard which replaces IAS 18 Revenue and IAS 11 Construction Contracts and provides a five step framework for application to customer contracts; identification of customer contracts, identification of the contract performance obligations, determination of the contract price, allocation of the contract price to the contract performance obligations, and revenue recognition as performance obligations are satisfied. A new requirement where revenue is variable stipulates that revenue may only be recognised to the extent that it is highly probable that significant reversal of revenue will not occur. The Company plans to adopt the new standard when it comes into effect for reporting periods following January 1, 2018. The Company has made a preliminary assessment of the impact of implementing IFRS 15 and anticipates that it will not have a material effect on its financial statements.

#### **5. Business and geographical segments**

The Company operates in one business segment, the exploration and development of oil and gas assets, in one geographical segment, Kurdistan. As a result, in accordance with *IFRS 8 Operating Segments*, the Company has presented its financial information collectively for one operating segment.

#### **6. Revenues**

Revenues relate to the Company's entitlement share of oil sales from Atrush for the period. Revenue for sales of oil is recognised when the significant risks and rewards of ownership are deemed to have been transferred to the KRG, the amount can be measured reliably and it is assessed as probable that economic benefit associated with the sale will flow to the Company. This occurs when oil reaches the delivery point at the Atrush Block boundary in route to the KRG's main export pipeline.

Revenue is recognised at fair value. The fair value is comprised of the Company's entitlement production due under the terms of the Atrush Joint Operating Agreement and the Atrush PSC which has two principal components: cost oil, which is the mechanism by which the Company recovers qualifying costs it has incurred on an asset, and profit oil, which is the mechanism through which profits are shared between the Company, its partners and the KRG. The Company pays capacity building payments on profit oil, which are due for payment once the Company has received the related profit oil proceeds. Profit oil revenue is reported net of any related capacity building payments.

The Company's oil sales are made to the KRG under the terms of a sales agreement which allows for Atrush oil volumes to be sold to the KRG at the Atrush Block boundary at a discount to the Dated Brent oil price for estimated oil quality adjustments and all local and international transportation costs.

Income tax arising from the Company's activities under production sharing contracts is settled by the KRG at no cost and on behalf of the Company. However the Company is not able to measure the tax that has been paid on its behalf and consequently revenue is not reported gross of income tax paid.

Refer also to Note 13.

#### **7. Cost of goods sold**

Lifting costs are comprised of the Company's share of expenses related to the production of oil from the Atrush Block including operation and maintenance of wells and production facilities, insurances, and the operator's related support costs.

Oil and gas assets are depleted using the unit of production method based on proved and probable reserves using estimated future prices and costs and taking into account future development expenditures necessary to bring those reserves into production. The reserves correspond to the Company's entitlement to oil under the terms of



**SHAMARAN PETROLEUM CORP.**  
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the PSC. Changes to depreciation rates as a result of changes in reserve quantities and estimates of future development expenditure are reflected prospectively.

**8. Finance income**

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Interest on Atrush Development Cost Loan	316	-	800	-
Interest on Atrush Feeder Pipeline Cost Loan	173	-	394	-
Interest on deposits	29	6	94	39
Total interest income	518	6	1,288	39
Foreign exchange gain	7	10	-	-
<b>Total finance income</b>	<b>525</b>	<b>16</b>	<b>1,288</b>	<b>39</b>

**9. Finance cost**

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Interest charges on bonds at coupon rate	5,068	4,530	14,797	13,283
Amortisation of bond transaction costs	211	209	631	733
Interest expense on borrowings	5,279	4,739	15,428	14,016
Unwinding discount on decommissioning provision	7	19	-	62
Foreign exchange loss	-	-	19	64
Total finance costs before borrowing costs capitalised	5,286	4,758	15,447	14,142
Borrowing costs capitalised as E&E and PP&E assets	(1,850)	(3,365)	(9,054)	(9,914)
<b>Finance cost</b>	<b>3,436</b>	<b>1,393</b>	<b>6,393</b>	<b>4,228</b>

**10. Taxation**

The Company's income tax expense relates to a provision for income tax on service income generated in Switzerland and is calculated at the effective tax rate of 24% prevailing in this jurisdiction.

**11. Property, plant and equipment**

The net book value of PP&E at September 30, 2017 is principally comprised of development costs related to the Company's share of Atrush PSC proved and probable reserves as estimated by McDaniel less the cumulative costs corresponding to commercial production which commenced in July 2017. During the first nine months of 2017 additions of \$17.0 million (year 2016: \$45.8 million), which included borrowing costs totalling \$9.0 million (year 2016: \$13.1 million), were capitalised to PP&E and depletion of \$2.3 million (year 2016: \$nil) was charged to PP&E.

**12. Intangible assets**

The net book value of E&E assets at September 30, 2017 represents Atrush Block exploration and appraisal costs related to the Company's share of Atrush Block contingent resources as estimated by McDaniel. During the first nine months of 2017 additions of \$0.3 million (year 2016: \$0.4 million), which included borrowing costs of \$0.1 million (year 2016: \$0.3 million), were capitalised to E&E assets.

**SHAMARAN PETROLEUM CORP.**  
**Notes to the Condensed Interim Consolidated Financial Statements (unaudited)**  
**For the three and nine months ended September 30, 2017**  
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**13. Loans and receivables**

	At September 30, 2017	At December 31, 2016
Atrush Exploration Costs receivable	37,531	37,475
Atrush Development Cost Loan	17,017	12,857
Atrush Feeder Pipeline Cost Loan	9,678	3,034
Accounts receivable on Atrush oil sales	3,782	-
<b>Total loans and receivables</b>	<b>68,008</b>	<b>53,366</b>
- Current portion	19,428	7,252
- Non-current portion	48,580	46,114

In October [and November] 2017 the Company received \$[2.5 million] in total payments for its entitlement share of July [and August] oil sales from Atrush and its share of reimbursement instalments on the Atrush Exploration Costs receivable.

Refer also to Notes 6 and 8.

**14. Accounts payable and accrued expenses**

	At September 30, 2017	At December 31, 2016
Payables to joint operations partner	4,958	6,146
Accrued expenses	838	118
Trade payables	258	170
<b>Total accounts payable and accrued expenses</b>	<b>6,054</b>	<b>6,434</b>

**15. Borrowings**

At September 30, 2017 General Exploration Partners, Inc. had outstanding \$157.2 million of senior secured bonds ("Senior Bonds") and \$19.1 million of super senior secured bonds ("Super Senior Bonds"). The Senior Bonds are listed on the Oslo Børs in Norway under the symbol "GEP01", have a five year maturity from their issuance date of November 13, 2013 and carry an 11.5% fixed semi-annual coupon and were used to fund capital expenditures related to the development of the Atrush Block. The Super Senior Bonds also mature on November 13, 2018, carry an 11.5% fixed semi-annual coupon and were used to fund capital expenditures related to the development of the Atrush Block. GEP has the option to pay in cash or in kind by issuing new bonds ("PIK Bonds") the remaining coupon interest on both Senior and Super Senior bonds.

Movements in borrowings are explained as follows:

	For the nine months ended September 30, 2017	For the year ended December 31, 2016
<b>Opening balance</b>	<b>167,632</b>	<b>150,515</b>
Interest charges at coupon rate	14,797	17,951
Bonds issued	9,585	17,700
Amortisation of bond transaction costs	631	943
Super Senior Bonds issued – net of transaction costs	-	16,223
Senior Bonds exchanged for ShaMaran common shares	-	(18,000)
Interest payments to bondholders	(9,585)	(17,700)
<b>Ending balance</b>	<b>183,060</b>	<b>167,632</b>
- Current portion: accrued bond interest expense	7,715	2,503
- Non-current portion: borrowings	175,345	165,129

**SHAMARAN PETROLEUM CORP.**  
**Notes to the Condensed Interim Consolidated Financial Statements (unaudited)**  
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The remaining contractual obligations comprising of repayment of principal and interest expense under the bond agreements, based on undiscounted cash flows at payment date and assuming all interest in 2017 is paid by issuing new bonds and the bonds are not redeemed early, are as follows:

	At September 30, 2017	At December 31, 2016
Less than one year	20,856	19,722
Between one and two years	187,004	188,138
<b>Total</b>	<b>207,860</b>	<b>207,860</b>

PIK Bonds of \$8.5 million and \$1.0 million were issued under the Senior Bonds and Super Senior Bonds agreements, respectively, to pay coupon interest which came due in the nine months ended September 30, 2017.

**16. Provisions**

The provision relates to the Company's working interest share of decommissioning and site restoration costs in relation to activities undertaken to date on the Atrush Block in Kurdistan.

**17. Share capital**

The Company is authorised to issue an unlimited number of common shares with no par value. The Company's issued share capital is as follows:

	Number of shares	Share capital
<b>At January 1, 2016</b>	<b>1,579,768,534</b>	<b>593,179</b>
Shares issued to holders of GEP's Senior Bonds	218,863,000	18,000
<b>At December 31, 2016</b>	<b>1,798,631,534</b>	<b>611,179</b>
Shares issued on private placement	360,000,000	27,281
Transaction costs on private placement	-	(922)
<b>At September 30, 2017</b>	<b>2,158,631,534</b>	<b>637,538</b>

On January 30, 2017 the Company completed the issue of 360 million common shares of ShaMaran on a private placement basis (the "Private Placement") at a price per share of CAD 0.10 (equal to SEK 0.67) which resulted in gross proceeds to the Company of \$27.3 million (\$26.4 million net of transaction related costs). Zebra Holdings and Investments SARL, Lorito Holdings SARL and Lundin Petroleum BV, the Company's major shareholders, subscribed for 43,463,618 shares, 16,984,621 shares and 17,800,000 shares, respectively, in the Private Placement. Refer also to Note 20.

**SHAMARAN PETROLEUM CORP.**  
**Notes to the Condensed Interim Consolidated Financial Statements (unaudited)**  
**For the three and nine months ended September 30, 2017**  
*(Expressed in thousands of United States dollars unless otherwise stated)*

**18. Financial instruments**

***Financial assets***

The financial assets of the Company on the balance sheet dates were as follows:

	Carrying and fair values <sup>1</sup>	
	At September 30, 2017	At December 31, 2016
Loans and receivables <sup>2</sup>	68,008	53,366
Cash and cash equivalents <sup>2</sup>	6,982	4,416
Other receivables <sup>2</sup>	86	77
<b>Total financial assets</b>	<b>75,076</b>	<b>57,859</b>

Financial assets classified as other receivables are initially recognised at fair value and are subsequently measured at amortised cost using the effective interest method less any provision for impairment.

***Financial liabilities***

The financial liabilities of the Company on the balance sheet dates were as follows:

	Fair value hierarchy <sup>4</sup>	Carrying values	
		At September 30, 2017	At December 31, 2016
Borrowings <sup>3</sup>	Level 2	175,345	165,129
Accrued interest on bonds		7,715	2,503
Accounts payable and accrued expenses <sup>2</sup>		6,054	6,434
Pension liability		1,661	1,670
<b>Total financial liabilities</b>		<b>190,775</b>	<b>175,736</b>

Financial liabilities are initially recognised at the fair value of the amount expected to be paid and are subsequently measured at amortised cost using the effective interest rate method.

<sup>1</sup> The carrying amount of the Company's financial assets approximate their fair values at the balance sheet dates.

<sup>2</sup> No valuation techniques have been applied to establish the fair value of these financial instruments as they are either cash and cash equivalents, correspond to payment terms fixed by contract or, due to the short term nature, are readily convertible to or settled with cash and cash equivalents.

<sup>3</sup> The fair value of the Company's borrowings at the balance sheet date was \$124.6 million (December 31, 2016: \$63.1 million). The fair value was determined by reference to the bond agreement terms and the weighted average of available annual published price quotations on the Oslo Børs.

<sup>4</sup> *Fair value measurements*

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and establishes a fair value hierarchy of three levels to classify the inputs to valuation techniques used to measure fair value:

- Level 1: fair value measurements are based on unadjusted quoted market prices;
- Level 2: fair value measurements are based on valuation models and techniques where the significant inputs are derived from quoted prices or indices;
- Level 3: fair value measurements are derived from valuation techniques that include inputs that are not based on observable market data.

**SHAMARAN PETROLEUM CORP.**  
**Notes to the Condensed Interim Consolidated Financial Statements (unaudited)**  
**For the three and nine months ended September 30, 2017**  
*(Expressed in thousands of United States dollars unless otherwise stated)*

**19. Commitments**

As at September 30, 2017 the outstanding commitments of the Company were as follows:

	For the year ended September 30,				Total
	2018	2019	2020	Thereafter	
Atrush Block development and PSC	22,409	120	120	1,570	24,219
Office and other	41	-	-	-	41
<b>Total commitments</b>	<b>24,450</b>	<b>120</b>	<b>120</b>	<b>1,570</b>	<b>24,260</b>

Amounts relating to Atrush Block development represent the Company's unfunded paying interest share of the approved pre-2018 work program and other obligations under the Atrush PSC.

**20. Related party transactions**

*Transactions with corporate entities*

	Purchases of services for periods ended September 30,				Amounts owing	
	three months		nine months		at the balance sheet dates	
	2017	2016	2017	2016	30 Sep 2017	31 Dec 2016
Lundin Petroleum AB	49	52	153	244	35	24
Namdo Management Services Ltd.	13	23	38	95	-	1
McCullough O'Connor Irwin LLP	3	3	28	44	-	-
<b>Total</b>	<b>65</b>	<b>78</b>	<b>219</b>	<b>383</b>	<b>35</b>	<b>25</b>

The Company receives services from various subsidiary companies of Lundin Petroleum AB ("Lundin"), a shareholder of the Company. Lundin charges during the three and nine months ended September 30, 2017 of \$49 (2016: \$52) and \$153 (2016: \$244) were comprised of technical service costs of \$1 (2016: \$nil) and \$1 (2016: \$3), investor relations services of \$6 (2016: \$8) and \$19 (2016: \$22), office rental, administrative and building services of \$42 (2016: \$44) and \$133 (2016: \$219).

Namdo Management Services Ltd. is a private corporation affiliated with a shareholder of the Company and has provided corporate administrative support and investor relations services to the Company.

McCullough O'Connor Irwin LLP is a law firm in which an officer of the Company is a partner and has provided legal services to the Company.

All transactions with related parties are in the normal course of business and are made on the same terms and conditions as with parties at arm's length.

Refer also to Note 17.

**SHAMARAN PETROLEUM CORP.**

<b>DIRECTORS</b>
<p><b>Keith C. Hill</b> Director, Chairman Florida, U.S.A</p> <p><b>Chris Bruijnzeels</b> Director, President &amp; Chief Executive Officer Geneva, Switzerland</p> <p><b>Brian D. Edgar</b> Director Vancouver, British Columbia</p> <p><b>Gary S. Guidry</b> Director Calgary, Alberta</p> <p><b>C. Ashley Heppenstall</b> Director Hong Kong</p>
<b>OFFICERS</b>
<p><b>Brenden Johnstone</b> Chief Financial Officer Geneva, Switzerland</p> <p><b>Kevin E. Hisko</b> Corporate Secretary Vancouver, British Columbia</p>

<b>CORPORATE INFORMATION</b>
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