ShaMaran Petroleum Corp

Financial Report (unaudited)

For the three months ended March 31, 2018

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 months ended March 31, 2018

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 May 9, 2018. The MD&A should be read in conjunction with the unaudited condensed interim consolidated financial statements for the three months ended March 31, 2018 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 a Canadian oil and gas company listed on the TSX Venture Exchange and the NASDAQ First North Exchange (Stockholm) under the symbol "SNM". ShaMaran has a 20.1% direct interest in the Atrush Block production sharing contract ("Atrush PSC") located. The Atrush Block is located in the Kurdistan Region of Iraq ("Kurdistan"), approximately 85 kilometres northwest of Erbil, the capital of Kurdistan. The Atrush Block is 269 square kilometres in area and has oil proven in Jurassic fractured carbonates in the Chiya Khere structure.

Oil production from Atrush commenced in July 2017. Installed production facilities have a capacity of 30,000 barrels of oil per day ("bopd"). Five production wells have been drilled to date of which three wells are currently producing.

Atrush is continuously being appraised and further phases of development, including further drilling and possible facilities expansion will be defined based on production data, appraisal information and economic circumstances.

HIGHLIGHTS AND DEVELOPMENTS

Operations

- In the first quarter of 2018 oil produced and exported from Atrush for sale to the Kurdistan Regional Government ("KRG") was 2.1 million barrels resulting in average production of 23,600 barrels of oil per day ("bopd") which was an increase over average daily production of 21,700 reported in the fourth quarter of 2017. The Company's entitlement share[1] of first quarter exports was 518 thousand barrels which were sold at an average netback price[2] of $51.14 per barrel of oil which equates to revenues of $26.5 million for the quarter. The first quarter production entitlement exceeds the Company's working interest production share mainly because of the exceptional redistribution of cost oil revenues from TAQA Atrush BV ("TAQA" and Operator of the Atrush Block) and General Exploration Partners, Inc. ("GEP" and a wholly owned subsidiary of the Company) under the Atrush Joint Operating Agreement ("Atrush JOA").[3] Average lifting costs for the quarter were $6.06/bbl, which is below the Company's $6.80/bbl guidance for 2018 provided on March 9, 2018.
- First quarter Atrush production was below the Company's 2018 guidance range of 25,000 to 30,000 bopd. Production in March 2018 averaged 20,300 bopd. Investigations revealed a partial blockage of the heat exchanger by sediments. The production facilities were shut down for four days in April during which time the sediments were successfully removed from the vessel. Sediment samples have been taken and are being analysed. In anticipation of the final sediment analysis, Atrush is currently producing at approximately 20,000 bopd, whilst carefully being monitored.
- Three wells are currently producing, Atrush-2 ("AT-2"), Chiya Khere-5 ("CK-5") and Chiya Khere-8 ("CK-8"). The Atrush-4 ("AT-4") well is shut in due to low productivity and awaiting a workover to install a smaller pump which now is planned for end Q3 2018.

[1] The Company's entitlement share includes an adjustment for the exploration cost sharing arrangement between TAQA and GEP.

[2] This includes a discount to Dated Brent for oil quality and all local and international transportation costs.

[3] 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 Atrush PSC. The Company's entitlement share of oil sold up to March 31, 2018 reflects a recovery of approximately $30.5 million of the $39.1 million. The Company forecasts that its entitlement to the remaining $8.6 million of priority recovery will occur in April to June 2018 under current oil price and production assumptions.

- The Chiya Khere-7 ("CK-7") was drilled in Q4 2017 and the reservoir section was encountered approximately 114 meters shallower than prognosis. In March and April 2018 three intervals were successfully tested: the Mus, the Alan and the Lower Sargelu formation all produced dry oil. CK-7 is now completed on the Alan and Lower Sargelu formation with an electric submersible pump. During the final completion test the well produced 27.5 API oil at 7,040 bopd at only 14 psi drawdown and based on the test results the well is expected to be able to produce over 10,000 bopd. CK-7 is now ready for production and will be commissioned upon completion of the connecting pipeline which is expected early in the third quarter of 2018.

Financial and Corporate

- The Company's cash inflows in the first quarter of 2018 from Atrush related activities are comprised of three elements:
  - Entitlement share of Atrush PSC profit oil and cost oil: the Company received payments totalling $14.0 million reflecting its entitlement share of the $40.7 million in total payments received by the Atrush Non-Government Contractors from the KRG for October through December 2017 oil sales. A further $11.1 million was received in April relating to January 2018 oil sales.
  - Atrush Exploration Costs receivable[4]: over this same period the Company collected a further $532 thousand of Atrush Exploration Cost receivables from the KRG's entitlement share of October through December 2017 oil sales. A further $255 thousand was received in April relating to January 2018 oil sales.
  - The Atrush Development Cost Loan and the Atrush Feeder Pipeline Cost Loan ("the KRG Loans"): In January 2018 the Non-Government Contractors and the KRG agreed that substantially all the first two instalments on the KRG Loans, which were due in November and December of 2017, would be offset against amounts owed to the KRG for security services which they provided for the Atrush operations, and an Atrush production bonus. The KRG Loan balances collected by the Company under the agreement was $2.6 million. The January 2018 invoice was paid in April 2018 which is in line with the current practice for crude oil sales payments.
- In February 2018 a new sales 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 $15.73 ($16.04 under the previous agreement) 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 and reflects a better API gravity than was assumed in the previous sales agreement.
- On February 15, 2018 the Company reported estimated reserves and contingent resources for the Atrush field as at December 31, 2017. Total Field Proven plus Probable ("2P") Reserves on a property gross basis for Atrush increased from 85.1 MMbbl reported as at December 31, 2016 to 102.7 MMbbl which, when 2017 Atrush production of 3.4 MMbbl is included, represents an increase of 25 percent. Total Field Unrisked Best Estimate Contingent Oil Resources ("2C")[5] on a property gross basis for Atrush was approximately the same as the 2016 estimate at 296 MMbbl. 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 2.9 billion barrels.

OPERATIONS

Atrush oil production

Oil production on the Atrush Block commenced on July 3, 2017. Cumulative production exported from Atrush from July 2017 to March 31, 2018 was 5.5 million barrels of oil.

	Q1.2018	Q4.2017	Q1.2017
Average daily oil production (bopd)	23,639	21,681	-
Oil produced and sold – gross field (Mbbls)	2,127	1,994	-
ShaMaran production entitlement (Mbbls)	518	295	-

The increase in production from Atrush in Q1.2018 relative to Q4.2017 was attributable to higher uptime in the period largely due to the production facility shut down Q4.2017 to address certain production constraints. This was partially offset by lower production in March 2018 of 20,300 bopd because of a partial blockage of the heat exchanger by sediments. ShaMaran's high production entitlement in the first quarter of 2018 is explained by the exceptional

[4] The Exploration Costs Receivable is related to the repayment of certain development costs that ShaMaran paid on behalf of the KRG which, for purposes of repayment, are governed under the Atrush PSC and the related Facilitation Agreement and deemed to be Exploration Costs.

[5] 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.

redistribution of cost oil revenues from TAQA to GEP under the Atrush during the period. The result was that the Company's share of entitlement production in this period were above the Company's 20.1% participating interest share and therefore have resulted in relatively high revenues this quarter.

In early April 2018 Atrush production was temporarily suspended to address the partial blockage of the heat exchanger. The sediments were successfully removed over a four-day plant shut down and production was resumed thereafter. The Production Facility is currently operating at approximately 20,000 bopd. Production is carefully monitored to prevent renewed buildup of sediments. Samples of the sediments are being analysed and, depending laboratory results, chemical or mechanical solutions will be implemented to prevent sediment build-up from reoccurring.

Three producing Atrush wells, AT-2, CK-5 and CK-8 are currently supplying this production. Following issues related back-producing drilling fluid lost during drilling operations, the AT-4 well has been successfully cleaned up via temporary facilities. However, productivity following the clean-up has been less than expected. The AT-4 well was drilled in a steeply dipping part of the reservoir and as a result appears to be not connected to the full reservoir sequence. AT-4 is currently shut in awaiting a work-over to install a smaller pump which now is planned for late Q3 2018.

The CK-7 well was drilled in Q4 2017 and the reservoir section was encountered 114 meters shallower than prognosis. In March and April 2018 three intervals were successfully tested: the Mus formation tested 20.1 API oil at a rate of 830 bopd, with a final productivity of 13 bopd/psi of drawdown; the Alan formation tested 27.1 API oil at a rate of 930 bopd, with a final productivity of 6 bopd/psi of drawdown; and the main Lower Sargelu formation tested 26.4 API oil at 1040 bopd at a drawdown of only 2 psi, yielding a final productivity of 446 bopd/psi of drawdown. No water was produced at the end of the test.

CK-7 is now completed on the Alan and Lower Sargelu formation with an electric submersible pump. During the final completion test the well produced 7,040 bopd at only 14 psi drawdown. Based on the test results the well is expected to be able to produce over 10,000 bopd. CK-7 is now ready for production and will be commissioned upon completion of the connecting pipeline which is expected early in the third quarter of 2018.

A further two appraisal wells have previously been drilled and tested in the eastern part of the field. Good reservoir communication has been proven between the east part and the west part of the field. It is planned to conduct an extended well test in one of the two eastern appraisal wells, Chiya Khere-6 ("CK-6"). This will provide important production information on the heavier part of the oil column. Together with production data from the five development wells this will allow for defining the next phases of development

Following encouraging production results from the Atrush field after the start of production in July 2017, as well as the positive drilling results of CK-7 well, the Company's independent reserves and resources evaluator, McDaniel & Associates Consultants Ltd ("McDaniel") increased the 2P oil reserves estimate to 102.7MMbbl at the end of the year 2017. This estimate assumes that four extra production wells will be drilled to further develop the medium gravity oil in the reserves area of the field increasing medium oil recovery. Reserves associated with the heavy oil extended well test planned in 2018 for the CK-6 well have also been included. Reserves which were included in McDaniel's previous estimate for heavy oil production from the wells currently producing have now been transferred to contingent resources because production to date has shown no indication of heavy oil.

The contingent oil resources represent the likely recoverable oil volumes associated with further phases of development after Phase 1. McDaniel has estimated gross 2C best estimate contingent oil resources of 296 MMbbl. These are contingent oil resources rather than reserves due to the uncertainty over the future development plan which will depend in part on Phase 1 production performance and the heavy oil extended well test planned for the second half of 2018. McDaniel estimates the chance of developing the 2C contingent oil resources at 80 percent.

OUTLOOK

Operations

- Following the unexpected accumulation of solids in the production facilities the production guidance for Atrush gross in 2018 has been reduced to 23,000 to 28,000 bopd while guidance for 2018 lifting costs remains unchanged at $6.80/bbl.
- Capital expenditure guidance remains unchanged at previous estimate of $19.6 million (20.1% working interest in Atrush) which includes:
  - identify and install additional heat sources ahead of the next winter months;
  - continue with program to identify debottleneck opportunities to further increase production capacity beyond 30,000 bopd;
  - 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 further assess the significant undeveloped Atrush resource base with the potential to grow organically to approximately 100,000 bopd production.

Financing

- Coupon interest of $10.7 million under the outstanding Senior and Super Senior Bond which is due May 13, 2018 will be paid in cash from the Company's cash reserves. Bond coupon interest payments had been made in kind by issuing so-called PIK bonds since the Company refinanced its bonds in May 2016.
- The Senior and Super Senior bonds are due to mature in November 2018. The Company is in an advanced state with its plans to refinance the bonds before maturity.

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 "4th PSC Amendment") and Atrush Facilitation Agreement were concluded between Non-Government Contractors and the KRG, in which the KRG acquired a 25% interest in the Atrush PSC effective November 7, 2012, resulting in GEP reducing its interest in the Atrush PSC to 20.1%.

Under the terms of the Atrush PSC the development period is for 20 years after the declaration of commerciality (November 7, 2012) 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							
	Mar 31 2018	Dec 31 2017	Sep 30 2017	Jun 30 2017	Mar 31 2017	Dec 31 2016	Sep 30 2016	Jun 30 2016
Continuing operations								
Revenues	26,501	13,907	3,782	-	-	-	-	-
Cost of goods sold	(12,168)	(9,426)	(4,583)	-	-	-	-	-
Service fee income	-	-	-	-	-	-	90	30
General and admin. expense	(925)	(966)	(1,637)	(818)	(1,090)	(805)	(695)	(1,009)
Share based payments expense	-	-	-	-	(11)	(57)	(58)	(58)
Depreciation and amortisation	(4)	-	(8)	(8)	(10)	(11)	(12)	(11)
Finance cost	(4,230)	(5,802)	(3,436)	(1,482)	(1,503)	(1,422)	(1,393)	(1,443)
Finance income	443	361	525	439	352	509	16	12
Income tax expense	(16)	(14)	(36)	(14)	(21)	(14)	(14)	(15)
Net income / (loss)	9,601	(1,940)	(5,393)	(1,883)	(2,283)	(1,800)	(2,066)	(2,494)
Basic and diluted net inc. / (loss) in $ per share	0.004	(0.001)	(0.002)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)

Summary of Principal Changes in the First Quarter Financial Information

In the first quarter of 2018 production from the Atrush Block and work on the Atrush development program continued. The net income was primarily driven by the gross margin on Atrush oil sales and interest income on Atrush cost loans to the KRG and was reduced by 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.

The Company's 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 operations are explained in detail as follows:

Gross margin on oil sales

In $000

	Q1.2018	Q4.2017	Q1.2017
Revenues from Atrush oil sales	26,501	13,907	-
Lifting costs	(2,426)	(3,245)	-
Other costs of production	(202)	(834)	-
Depletion costs	(9,540)	(5,347)	-
Cost of goods sold	(12,168)	(9,426)	-
Gross margin on oil sales	14,333	4,481	-

Revenues relate to the Company's entitlement share of oil sales from Atrush for the year. 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 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.

Production from the Atrush field was delivered to the KRG's Feeder Pipeline at the Atrush block boundary for onward export through Ceyhan, Turkey. Gross exported volumes from Atrush in the first quarter of 2018 were 2.1 MMbbl and the Company's entitlement share was approximately 0.5 MMbbl which were sold with an average netback price of $51.14 per barrel. ShaMaran's oil entitlement share is based on PSC terms covering allocation of profit oil and cost oil, capacity building bonuses owed to the KRG and a priority arrangement with TAQAQ for sharing initial exploration cost oil and on export prices which are based on Dated Brent oil price with a discount for estimated oil quality adjustments and all local and international transportation costs.

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. The average lifting cost per barrel of oil produced from Atrush was $6.06 in the three months ended March 31, 2018. Other costs of production include the Company's share of other costs prescribed under the Atrush PSC.

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 accounting for 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 per entitlement barrel was $18.41 for the three months ended March 31, 2018. Changes to depletion rates resulting from changes in reserve quantities and estimates of future development expenditure are reflected prospectively.

The relatively high gross margin on oil sales in the first quarter of 2018 is explained by the exceptional redistribution of cost oil revenue from TAQA to GEP under the JOA. The result was that the Company's share of entitlement production in this period were above the Company's 20.1% participating interest share and therefore have resulted in relatively high revenues this quarter. Refer to also to footnote 3 under "Highlights" section above.

General and administrative expense

In $000

	Q1.2018	Q4.2017	Q1.2017
Salaries and benefits	496	503	705
Legal, accounting and audit fees	134	102	107
Management and consulting fees	114	121	102
General and other office expenses	82	106	73
Listing costs and investor relations	79	56	75
Travel expenses	20	43	28
Advertisements	-	35	-
General and administrative expense	925	966	1,090

The lower general and administrative expense incurred in the first three months of 2018 was principally due to lower payroll costs relating to salary bonuses incurred by the Company's Swiss subsidiary in the comparable period of last year.

Share based payments expense

In $000

	Q1.2018	Q4.2017	Q1.2017
Share based payments expense	-	-	11

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. Share based payments expense results from the vesting of stock options granted over the vesting period which is normally two years after the grant date. The last stock option grant of January 19, 2015 is now fully vested and was fully expensed at the end of the first quarter of 2017.

Depreciation and amortisation expense

In $000

	Q1.2018	Q4.2017	Q1.2017
Depreciation and amortisation expense	4	-	10

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

In $000

	Q1.2018	Q4.2017	Q1.2017
Interest on Atrush Development Cost Loan	268	242	232
Interest on Atrush Feeder Pipeline Cost Loan	167	106	94
Interest on deposits	8	13	26
Total finance income	443	361	352

Under the terms of the 4th 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 three first months of 2018 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 decrease in interest income reported in the first quarter of 2018 relative to the amount reported in 2017 is due to a lower level of interest bearing funds held in 2018.

Finance cost

In $000

	Q1.2018	Q4.2017	Q1.2017
Interest charges on bonds at coupon rate	5,360	5,221	4,846
Amortisation of bond transaction costs	210	210	210
Interest expense on borrowings	5,570	5,431	5,056
Foreign exchange loss	70	83	47
Unwinding discount on decommissioning provision	5	4	(10)
Total finance costs before borrowing costs capitalised	5,645	5,518	5,093
Borrowing costs capitalised as E&E and PP&E assets	(1,415)	284	(3,590)
Finance cost	4,230	5,802	1,503

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 the first quarter of 2018 borrowing costs capitalised relative to the total interest expense on borrowings compared to that of the prior period is due to expensing the pro-rata portion of borrowing costs related to Atrush production costs which commenced in July 2017.

During the three months ended March 31, 2018 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 amount reported in 2017 due to the additional bonds outstanding in the period resulting from the issuance of PIK bonds in May and November 2017. Refer also to the discussion in the section below entitled “Borrowings”.

The foreign exchange loss recorded in the first quarter of 2018 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

In $000

	Q1.2018	Q4.2017	Q1.2017
Income tax expense	16	14	21

Income tax expense relates to provisions for income taxes on service income generated in Switzerland which is based on costs incurred in procuring the services. The decrease in tax expense reported in the first quarter of 2018 is primarily due to lower taxable income in the Company’s Swiss subsidiary which decreased compared to 2017 because of lower costs of service.

Capital Expenditures on Property Plant & Equipment (“PP&E”)

The net book value of PP&E 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 depletion costs corresponding to commercial production which commenced in July 2017. The movements in PP&E are explained as follows:

In $000	Three months ended March 31, 2018			Year ended December 31, 2017		
	Oil and gas assets	Office equipment	Total	Oil and gas assets	Office equipment	Total
Opening net book value	184,918	3	184,921	174,642	16	174,658
Additions	3,175	2	3,177	17,903	3	17,906
Depletion and depreciation expense	(9,540)	-	(9,540)	(7,627)	(16)	(7,643)
Net book value	178,553	5	178,558	184,918	3	184,921

During the first quarter of 2018 additions of $3.2 million (year 2017: $17.9 million), which included borrowing costs totalling $1.3 million (year 2017: $8.8 million), were capitalised to PP&E and depletion of $9.5 million (year 2017: $7.6 million) was charged to PP&E.

Capital Expenditures on Intangible Assets

The net book value of Intangible assets 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:

In $000	Three months ended March 31, 2018			Year ended December 31, 2017		
	E&E assets	Software & Licences	Total	E&E assets	Software & Licences	Total
Opening net book value	89,113	6	89,119	88,972	35	89,007
Additions	208	-	208	141	2	143
Disposals	-	-	-	-	(21)	(21)
Amortisation expense	-	(3)	(3)	-	(10)	(10)
Net book value	89,321	3	89,324	89,113	6	89,119

During the three first months of 2018 additions of $208 thousand (year 2017: $143 thousand), which included borrowing costs of $95 thousand (year 2017: $16 thousand), were capitalised to E&E assets.

Loans and receivables

On November 7, 2016, the 4th 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 from the Atrush block boundary to the tie-in point with the main Kurdistan export pipeline (the "Feeder Pipeline").

Under the terms of the 4th PSC Amendment and Atrush Facilitation Agreement:

- The KRG acquires a 25% interest in the Atrush PSC effective November 7, 2012, the date of declaration of commerciality ("DOC date"). Consequently, 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 commencement of oil exports from Atrush are paid by the Non-Government Contractors and a defined portion of the KRG's share of these costs are 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 at year end 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 commencement of oil exports from Atrush. 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 Pipeline Cost Loan" and the "Atrush Development Cost Loan"). These arrangements have resulted in loan balances at year end as reported in the table below.

In $000	For the three months ended March 31, 2018	For the year ended December 31, 2017
Atrush Exploration Costs receivable	36,707	37,247
Accounts receivable on Atrush oil sales	26,501	13,957
Atrush Development Cost Loan	16,298	16,018
Atrush Feeder Pipeline Cost Loan	10,301	9,751
Total loans and receivables	89,807	76,973

In the first three months of 2018 the Company received $14.0 million (2017: nil) in total payments for its entitlement share Atrush production for October through December 2017 and an additional $540 thousand (2017: nil) in reimbursement instalments on the Atrush Exploration Costs receivable.

The Company funded Feeder Pipeline costs of $394 thousand in the first quarter of 2018. This concludes the Company's funding obligations for both the Atrush Feeder Pipeline and Atrush Development Cost loans.

In the period from the balance sheet date up to when these financial statements were approved the Company received $15.3 million in total payments for loans and receivables balances outstanding at March 31, 2018 comprised of $11.1 million in total payments for its entitlement share of oil sales for January 2018, $3.9 million for Atrush Development Cost Loan and Atrush Feeder Pipeline Cost Loan balances outstanding at end of January 2018 and $0.3 million in reimbursements of the Atrush Exploration Costs receivable.

Borrowings

At March 31, 2018 General Exploration Partners, Inc. had outstanding $166.3 million of senior secured bonds ("Senior Bonds") and $20.2 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.

All the movements in borrowings during the first three months of 2018 were non-cash and are explained as follows:

In $000

	For the three months ended March 31, 2018	For the year ended December 31, 2017
Opening balance	188,491	167,632
Interest charges at coupon rate	5,360	20,018
Amortisation of bond transaction costs	210	841
Bonds issued	-	19,721
Interest payments to bondholders	-	(19,721)
Ending balance	194,061	188,491
- Current portion: accrued bond interest expense	8,159	2,799
- Current portion: borrowings	185,902	185,692

The remaining contractual obligations comprising of repayment of principal and interest expense under the Bond agreements, based on undiscounted cash flows at payment dates and assuming 2018 interest is paid in cash, are as follows:

	At March 31, 2018	At December 31, 2017
Less than one year	207,860	207,860
Total	207,860	207,860

Debt Incurrence Tests

In accordance with the amended terms of GEP's Senior Bonds and Super Senior Bonds agreements ShaMaran is required to follow 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 Senior Bonds and Super Senior Bonds hold security jointly with Super Senior Bonds ranking first until these 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 GEP's cash accounts are pledged to the bond trustee as security and cash may be employed only for prescribed purposes, 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. Of the Company's $11.4 million of total cash and cash equivalents at March 31, 2018 (December 31, 2017: $5.3 million) $8.2 million was held in GEP's restricted accounts (December 31, 2017: $2.2 million).

LIQUIDITY AND CAPITAL RESOURCES

Working capital at March 31, 2018 was negative $133.9 million compared to positive $18.8 million at March 31, 2017. The decrease in working capital since March 31, 2017 is principally due to the approaching maturity of the Company's bonds in November 2018.

The overall cash position of the Company increased by $6.1 million during the first three months of 2018 compared to an increase in cash of $17.6 million during the same period of 2017. The main components of the movement in funds are discussed in the following paragraphs.

The operating activities of the Company during the first quarter of 2018 resulted in an increase in the cash position of $7.5 million compared to a decrease of $1.0 million in the cash position during the comparable period of 2017. The increase in the cash position is explained by net income of $9.6 million which was offset by $2.1 million of net negative cash adjustments from working capital items and non-cash expenses.

Net cash outflows to investing activities in the first three months of 2018 were $1.4 million compared to cash outflows of $7.7 million during the same period in 2017. Substantially all the cash outflows to investing activities in the first quarter of 2018 relate to investment in the Atrush Block development work program, and was comprised of $1.5 million in respect of the Company's participating interest in the development program relating to the Atrush PSC and $0.4 million in respect of loans to the KRG to fund a portion of the Atrush Feeder Pipeline. Offsetting these investment cash outflows were cash inflows of $0.5 million in loan repayments by the KRG and interest payments on interest bearing cash and investments.

The Company had no cash flows relating to financing activities in the first three months of 2018 compared to $26.4 million of cash inflows in the comparable period in 2017 which related entirely to the issuance of common shares of the Company pursuant to the Private Placement conducted in January 2017.

At March 31, 2018 ShaMaran held cash and cash equivalents of $11.4 million, of which an amount of $8.2 million was restricted under the Company's bond agreements. 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 $29 million for the 12 months ended March 31, 2019. The oil sales volume assumptions reflect an average production at a rate of 24,000 barrels of oil per day over the period, which is consistent with Atrush production rates up to the date these financial statements were approved, 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 $15.73 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 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.

The Company is considering alternatives for refinancing its $186 million of outstanding bonds and is confident that it will secure sufficient funding before the bonds mature in November 2018. Accordingly, the $29 million of projected cash inflows over the next 12 months does not include any cash outflows associated with repayment of the maturing bond principal but does reflect cash payment of semi-annual bond coupon interest expense.

Should there be delays to 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 require additional liquidity in the next 12 months 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.

In case 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 the Company is unable to finance the maturing bonds when they come due and or there are any unforeseen delays in receipt of funds from oil sales, 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

The Company had 2,158,631,534 outstanding shares at March 31, 2018 and at the date of this MD&A.

At March 31, 2018 there were 28,165,000 stock options outstanding under the Company's employee incentive stock option plan and there has been no change in the number of stock options which were outstanding at December 31, 2017. No stock options were forfeited or exercised in the first three months of 2018 (2017: nil). There has been no further change in the number of stock options outstanding from March 31, 2018 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

In $000	Purchases of services for the three months ended		Amounts owing at the reporting dates,	
	March 31, 2018	**March 31, 2017**	**March 31, 2018**	**December 31, 2017**
Lundin Petroleum AB	52	51	32	18
Namdo Management Services Ltd.	13	12	-	-
McCullough O'Connor Irwin LLP	6	12	1	-
Total	**71**	**75**	**33**	**18**

The Company receives services from various subsidiary companies of Lundin Petroleum AB ("Lundin"), a shareholder of the Company. Lundin charges during the three months ended March 31, 2018 of $52 (2017: $51) were comprised of office rental, administrative and building services of $45 (2017: $44) and investor relations services of $7 (2017: $7).

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 AND CONTINGENCIES

Atrush Block Production Sharing Contract

Under the terms of the Atrush PSC the development period is for 20 years after declaration of commerciality (November 7, 2012) 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. 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.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 March 31, 2018 the outstanding commitments of the Company were as follows:

In $000	For the three months ended March 31,				
	2019	**2020**	**2021**	**Thereafter**	**Total**
Atrush Block development	23,732	120	120	1,448	25,420
Office and other	32	-	-	-	32
Total commitments	**23,764**	**120**	**120**	**1,448**	**25,452**

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

Under the terms of the Atrush PSC the Company will owe a share of production bonuses payable to the KRG when cumulative oil production from Atrush reaches production milestones defined in the Atrush PSC as follows: $8.3 million at 10 million barrels (ShaMaran share: $2.2 million); $13.3 million at 25 million barrels (ShaMaran share: $3.6 million); and $23.3 million at 50 million barrels (ShaMaran share: $6.2 million).

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.

Significant Accounting Policies

The Company adopted IFRS 15, Revenue from Contracts with Customers and IFRS 9, Financial Instruments effective January 1, 2018. Refer to Note 2 "Basis of Presentation, Going Concern and Significant Accounting Policies" in the Company's Condensed Interim Consolidated Financial Statements for the period ended March 31, 2018 for further discussion.

New 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 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 currently has no outstanding leases.

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 if 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 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 have been no evaluations of the Company's reserves and resource estimates since the report as at December 31, 2017 provided by McDaniel in February 2018.

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 after 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 to sell or repurchase 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 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 and are classified as financial assets when the Company has a right to cash collection. If collection of the amounts is expected in one year or less they are classified as current assets. If not, they are presented as non-current assets. 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. A decline in the price of ICE Brent Crude oil, a reference in determining the price at which the Company can sell future oil 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 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 ("CHF") and Canadian dollars ("CAD"). 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 at variable rates on its cash and cash equivalents 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, loans and receivables 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 to finance its activities for limited periods. The Company seeks to acquire 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 political and regional risks in the Kurdistan Region of Iraq, industry and market risks such as fluctuation in the price of oil, and business risks such as the potential for significant delays in the receipt of cash for its entitlement share of future oil exports and other risks discussed in this MD&A. For a complete discussion on risk factors which may affect the Company's business refer to the "Risk Factors" section of the Company's Annual Information Form, which is available for viewing both on the Company's web-site at www.shamaranpetroleum.com and on SEDAR at www.sedar.com, under the Company's profile.

ADDITIONAL INFORMATION

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

ShaMaran Petroleum Corp.

Condensed Interim Consolidated Financial Statements
For the three months ended March 31, 2018
(unaudited)

The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of the management of the Company. The Company's independent auditor has not performed a review of these financial statements.

SHAMARAN PETROLEUM CORP.

Condensed Interim Consolidated Statement of Comprehensive Income (unaudited)

(Expressed in thousands of United States dollars, except for per share data)

	Note	For the three months ended March 31, 2018	2017
Revenues	6	26,501	-
Cost of goods sold:			
Lifting costs	7	(2,426)	-
Other costs of production	7	(202)	-
Depletion	7	(9,540)	-
Gross margin on oil sales		14,333	-
Share based payments expense		-	(11)
Depreciation and amortisation expense		(4)	(10)
General and administrative expense		(925)	(1,090)
Income / (loss) from operating activities		**13,404**	**(1,111)**
Finance income	8	443	352
Finance cost	9	(4,230)	(1,503)
Net finance cost		**(3,787)**	**(1,151)**
Income / (loss) before income tax expense		**9,617**	**(2,262)**
Income tax expense	10	(16)	(21)
Income / (loss) for the period		**9,601**	**(2,283)**
Other comprehensive income			
Items that may be reclassified to profit or loss:			
Currency translation differences		18	16
Total other comprehensive income		**18**	**16**
Total comprehensive income / (loss) for the period		**9,619**	**(2,267)**
Income in dollars per share:			
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 March 31, 2018	At December 31, 2017
Assets			
Non-current assets			
Property, plant and equipment	11	178,558	184,921
Intangible assets	12	89,324	89,119
Loans and receivables	13	39,300	44,696
		307,182	**318,736**
Current assets			
Loans and receivables	13	50,507	32,277
Cash and cash equivalents, restricted		8,205	2,162
Cash and cash equivalents, unrestricted		3,145	3,094
Other current assets		300	212
		62,157	**37,745**
Total assets		**369,339**	**356,481**
Liabilities and equity			
Current liabilities			
Borrowings	15	185,902	185,692
Accrued interest expense on bonds	15	8,159	2,799
Accounts payable and accrued expenses	14	1,979	4,827
Current tax liabilities	10	9	-
		196,049	**193,318**
Non-current liabilities			
Provisions	16	9,892	9,427
Pension liability		1,824	1,781
		11,716	**11,208**
Total liabilities		**207,765**	**204,526**
Equity			
Share capital	17	637,538	637,538
Share based payments reserve		6,495	6,495
Cumulative translation adjustment		(12)	(30)
Accumulated deficit		(482,447)	(492,048)
Total equity		**161,574**	**151,955**
Total liabilities and equity		**369,339**	**356,481**

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
Balance at January 1, 2017	**611,179**	**6,484**	**(61)**	**(480,536)**	**137,066**
Total comprehensive loss for the period:					
Loss for the period	-	-	-	(2,283)	**(2,283)**
Other comprehensive income	-	-	16	-	**16**
	-	-	16	(2,283)	**(2,267)**
Transactions with owners in their capacity as owners:					
Share based payments expense	-	11	-	-	**11**
Shares issued on private placement	27,281	-	-	-	**27,281**
Transaction costs	(922)	-	-	-	**(922)**
	26,359	11	-	-	**26,370**
Balance at March 31, 2017	**637,538**	**6,495**	**(45)**	**(482,819)**	**161,169**
Balance at December 31, 2017	**637,538**	**6,495**	**(30)**	**(492,048)**	**151,955**
Total comprehensive loss for the period:					
Income for the period	-	-	-	9,601	**9,601**
Other comprehensive income	-	-	18	-	**18**
	-	-	18	9,601	**9,619**
Balance at March 31, 2018	**637,538**	**6,495**	**(12)**	**(482,447)**	**161,574**

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	For the three months ended March 31, 2018	2017
Operating activities			
Income / (loss) for the period		9,601	(2,283)
Adjustments for:			
Depreciation, depletion and amortisation expense		9,544	10
Interest expense on borrowings – net		4,156	1,466
Foreign exchange loss	9	70	47
Share based payments expense		-	11
Unwinding discount on decommissioning provision		5	(10)
Interest income	8	(443)	(352)
Changes in current tax liabilities		9	-
Changes in pension liability		1	-
Changes in other current assets		(88)	(44)
Changes in accounts payable and accrued expenses		(2,848)	113
Changes in accounts receivables on Atrush oil sales		(12,544)	-
Net cash inflows from / (outflows to) operating activities		**7,463**	**(1,042)**
Investing activities			
Loans and receivables – payments received		540	-
Interest received on cash deposits	8	8	26
Purchases of intangible assets		(61)	(30)
Loans and receivables – payments issued	13	(394)	(4,327)
Purchase of property, plant and equipment		(1,449)	(3,391)
Net cash outflows to investing activities		**(1,356)**	**(7,722)**
Financing activities			
Proceeds from shares issued		-	27,281
Share issue related transaction costs		-	(922)
Net cash inflows from financing activities		**-**	**26,359**
Effect of exchange rate changes on cash and cash equivalents		(13)	(5)
Change in cash and cash equivalents		**6,094**	**17,590**
Cash and cash equivalents, beginning of the period		5,256	4,416
Cash and cash equivalents, end of the period*		**11,350**	**22,006**
***Inclusive of restricted cash**		**8,205**	**-**

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

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 Stockholm First North Exchange (Sweden) 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, going concern and significant accounting policies

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"). The policies applied in these interim consolidated financial statements are based on IFRS which were outstanding and effective as of May 9, 2018, 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, 2017.

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 March 31, 2018 ShaMaran held cash and cash equivalents of $11.4 million, of which an amount of $8.2 million was restricted under the Company's bond agreements. 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 $29 million for the 12 months ended March 31, 2019. The oil sales volume assumptions reflect an average production at a rate of 24,000 barrels of oil per day over the period, which is consistent with Atrush production rates up to the date these financial statements were approved, 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 $15.73 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 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.

The Company is considering alternatives for refinancing its $186 million of outstanding bonds and is confident that it will secure sufficient funding before the bonds mature in November 2018. Accordingly, the $29 million of projected cash inflows over the next 12 months does not include any cash outflows associated with repayment of the maturing bond principal but does reflect cash payment of semi-annual bond coupon interest expense.

Should there be delays to 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 require additional liquidity in the next 12 months 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.

In case 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 the Company is unable to finance the maturing bonds when they come due and or there are any unforeseen delays in receipt of funds from oil sales, indicates a material uncertainty which may cast significant doubt over the Company's ability to continue as a going concern. These 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 and 19.

c. Significant accounting policies

These condensed interim consolidated financial statements 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, 2017 except for those noted below.

i. *IFRS 15, Revenue from Contracts with Customers*

The Company adopted IFRS 15 effective January 1, 2018 and applied it on a retrospective basis. The application of IFRS 15 has not resulted in any differences between the previous carrying amounts and the carrying amounts at the date of initial application of IFRS 15.

Revenue from Contracts with Customers is recognized when a customer obtains control of the promised asset and the Company satisfies its performance obligation. Revenue is allocated to each performance obligation. The Company considers the terms of the contract in determining the transaction price. The transaction price is based upon the amount the entity expects to be entitled to in exchange for the transferring of promised goods. The Company earns revenue from oil sales made to the KRG under the sales agreement between the KRG and the Atrush joint venture partners.

The Company satisfies its performance obligations for its oil sales based upon specified sales agreement terms which are that Atrush oil volumes are 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. Revenue from oil sales is recorded based on the sales agreement terms at the time the oil is delivered to the Atrush Block boundary. The Company typically receives payment within three months of delivery.

The Company has concluded that there were no significant changes in the accounting for oil sales in adopting IFRS 15.

ii. *IFRS 9, Financial Instruments*

The Company adopted IFRS 9 effective January 1, 2018 and applied it on a retrospective basis. The application of IFRS 9 has not resulted in any differences between the previous carrying amounts and the carrying amounts at the date of initial application of IFRS 9.

Financial instruments are recognized on the consolidated balance sheet on the trade date, the date on which the Company becomes a party to the contractual provisions of the financial instrument. The Company classifies its financial instruments in the following categories:

Financial Assets at Amortized Cost – Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. The Company's loans and receivables consist of fixed or determined cash flows related solely to principal and interest amounts or contractual sales of oil. The Company's intent is to hold these receivables until cash flows are collected. Loans and receivables are recognized initially at fair value, net of any transaction costs incurred and subsequently measured at amortized cost using the effective interest method. The Company recognizes a loss allowance for any expected credit losses on a financial asset that is measured at amortized cost.

Financial Assets at Fair Value through Profit or Loss ("FVTPL") – Financial assets measured at FVTPL are assets which do not qualify as financial assets at amortized cost or at fair value through other comprehensive income. The Company does not currently have any financial assets measured at FVTPL.

Financial Liabilities at Amortized Cost – Financial liabilities are measured at amortized cost using the effective interest method, unless they are required to be measured at FVTPL, or the Company has opted to measure them at FVTPL. Borrowings and accounts payable are recognized initially at fair value, net of any transaction costs incurred, and subsequently at amortized cost using the effective interest method.

Financial Liabilities at FVTPL – Financial liabilities measured at FVTPL are liabilities which include embedded derivatives and cannot be classified as amortized cost. The Company does not currently have any financial liabilities measured at FVTPL.

The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all the associated risks and rewards of ownership. Gains and losses on derecognition are generally recognized in the consolidated statement of income.

The Company derecognizes financial liabilities only when its obligations under the financial liabilities are discharged, cancelled or expelled. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in the consolidated statement of income.

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, 2017.

4. New accounting standards

New accounting standards which will come into effect for annual periods beginning on or after January 1, 2019 are discussed below.

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 currently has no outstanding leases.

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 entirely to the Company's entitlement share of oil from Atrush sold to the KRG from beginning of this year. Production from the Atrush field was delivered to the KRG's Feeder Pipeline at the Atrush block boundary for onward export through Ceyhan, Turkey. Gross exported volumes from Atrush in the first three months of 2018 were 2.1 MMbbls (2017: nil) and the Company's entitlement share was approximately 0.5 MMbbls (2017: nil) which were sold with an average netback price of $51.14 per barrel (2017: n/a). ShaMaran's oil entitlement share is based on PSC terms covering allocation of profit oil and cost oil, capacity building bonuses owed to the KRG and a priority arrangement for sharing initial exploration cost oil and on export prices which are based on Dated Brent oil price with a discount for estimated oil quality adjustments and all local and international transportation costs.

Refer also to Note 13.

(Expressed in thousands of United States dollars unless otherwise stated)

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. Other costs of production include the Company's share of any production bonuses paid to the KRG and its share of other costs prescribed under the Atrush PSC.

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 accounting for future development expenditures necessary to bring those reserves into production.

Refer also to Note 6.

8. Finance income

	For the three months ended March 31, 2018	2017
Interest on Atrush Development Cost Loan	268	232
Interest on Atrush Feeder Pipeline Cost Loan	167	94
Interest on deposits	8	26
Total finance income	**443**	**352**

Refer also to Note 13.

9. Finance cost

	For the three months ended March 31, 2018	2017
Interest charges on bonds at coupon rate	5,360	4,846
Amortisation of bond transaction costs	210	210
Interest expense on borrowings	5,570	5,056
Foreign exchange loss	70	47
Unwinding discount on decommissioning provision	5	(10)
Total finance costs before borrowing costs capitalised	5,645	5,093
Borrowing costs capitalised as E&E and PP&E assets	(1,415)	(3,590)
Finance cost	**4,230**	**1,503**

Refer also to Note 15.

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 is principally comprised of development costs related to the Company's share of Atrush PSC proved and probable reserves as estimated by McDaniel & Associates Consultants Ltd. ("McDaniel"), the Company's independent reserves and resources evaluator, less the cumulative depletion costs corresponding to commercial production which commenced in July 2017. During the first three months of 2018 additions of $3.2 million (year 2017: $17.9 million), which included borrowing costs totalling $1.3 million (year 2017: $8.8 million), were capitalised to PP&E and depletion of $9.5 million (year 2017: $7.6 million) was charged to PP&E.

(Expressed in thousands of United States dollars unless otherwise stated)

12. Intangible assets

The net book value of intangible assets 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. During the three first months of 2018 additions of $208 thousand (year 2017: $143 thousand), which included borrowing costs of $95 thousand (year 2017: $16 thousand), were capitalised to E&E assets.

13. Loans and receivables

	At March 31, 2018	At December 31, 2017
Atrush Exploration Costs receivable	36,707	37,247
Accounts receivable on Atrush oil sales	26,501	13,957
Atrush Development Cost Loan	16,298	16,018
Atrush Feeder Pipeline Cost Loan	10,301	9,751
Total loans and receivables	**89,807**	**76,973**
- Current portion	50,507	32,277
- Non-current portion	39,300	44,696

In the first three months of 2018 the Company received $14.0 million (2017: nil) in total payments for its entitlement share Atrush production for October through December 2017 and an additional $540 thousand (2017: nil) in reimbursement instalments on the Atrush Exploration Costs receivable.

The Company funded Feeder Pipeline costs of $394 thousand in the first quarter of 2018. This concludes the Company's funding obligations for both the Atrush Feeder Pipeline and Atrush Development Cost loans.

In the period from the balance sheet date up to when these financial statements were approved the Company received $15.3 million in total payments for loans and receivables balances outstanding at March 31, 2018 comprised of $11.1 million in total payments for its entitlement share of oil sales for January 2018, $3.9 million for Atrush Development Cost Loan and Atrush Feeder Pipeline Cost Loan balances outstanding at end of January 2018 and $0.3 million in reimbursements of the Atrush Exploration Costs receivable.

Refer also to Notes 6 and 8.

14. Accounts payable and accrued expenses

	At March 31, 2018	At December 31, 2017
Payables to joint operations partner	1,368	4,365
Accrued expenses	370	91
Trade payables	241	371
Total accounts payable and accrued expenses	**1,979**	**4,827**

15. Borrowings

At March 31, 2018 General Exploration Partners, Inc. ("GEP" and a fully owned subsidiary of the Company), had outstanding $166.3 million of senior secured bonds ("Senior Bonds") and $20.2 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.

(Expressed in thousands of United States dollars unless otherwise stated)

The movements in borrowings during the first three months of 2018 were non-cash and are explained as follows:

	At March 31, 2018	At December 31, 2017
Opening balance	**188,491**	**167,632**
Interest charges at coupon rate	5,360	20,018
Amortisation of bond transaction costs	210	841
Bonds issued	-	19,721
Interest payments to bondholders	-	(19,721)
Ending balance	**194,061**	**188,491**
- Current portion: accrued bond interest expense	8,159	2,799
- Current portion: borrowings	185,902	185,692

The remaining contractual obligations comprising of repayment of principal and interest expense under the Bond agreements, based on undiscounted cash flows at payment dates and assuming 2018 interest is paid in cash, are as follows:

	At March 31, 2018	At December 31, 2017
Less than one year	207,860	207,860
Total	**207,860**	**207,860**

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
At January 1, 2017	**1,798,631,534**	**611,179**
Shares issued on private placement	360,000,000	27,281
Transaction costs on private placement	-	(922)
At December 31, 2017	**2,158,631,534**	**637,538**
At March 31, 2018	**2,158,631,534**	**637,538**

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.

(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 [1]	
	At March 31, 2018	**At December 31, 2017**
Loans and receivables [2]	53,100	39,726
Cash and cash equivalents, restricted [2]	8,205	2,162
Cash and cash equivalents, unrestricted [2]	3,145	3,094
Other receivables [2]	150	52
Total financial assets	**64,600**	**45,034**

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 [4]	Carrying values	
		At March 31, 2018	**At December 31, 2017**
Borrowings [3]	Level 2	185,902	185,692
Accrued interest on bonds		8,159	2,799
Accounts payable and accrued expenses [2]		1,979	4,827
Pension liability		1,824	1,781
Current tax liabilities		9	-
Total financial liabilities		**197,873**	**195,099**

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.

[1] The carrying amount of the Company's financial assets approximate their fair values at the balance sheet dates.

[2] 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.

[3] The fair value of the Company's borrowings at the balance sheet date was $162.6 million (December 31, 2017: $151.8 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.

[4] *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.

(Expressed in thousands of United States dollars unless otherwise stated)

19. Commitments and contingencies

As at March 31, 2018 the outstanding commitments of the Company were as follows:

	For the year ended March 31,				
	2019	2020	2021	Thereafter	Total
Atrush Block development and PSC	23,732	120	120	1,448	25,420
Office and other	32	-	-	-	32
Total commitments	**23,764**	**120**	**120**	**1,448**	**25,452**

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

Under the terms of the Atrush PSC the Company will owe a share of production bonuses payable to the KRG when cumulative oil production from Atrush reaches production milestones defined in the Atrush PSC as follows: $8.3 million at 10 million barrels (ShaMaran share: $2.2 million); $13.3 million at 25 million barrels (ShaMaran share: $3.6 million); and $23.3 million at 50 million barrels (ShaMaran share: $6.2 million).

20. Related party transactions

Transactions with corporate entities

	Purchases of services for the three months ended		Amounts owing at the balance sheet dates,	
	March 31, 2018	March 31, 2017	March 31, 2018	December 31, 2017
Lundin Petroleum AB	52	51	32	18
Namdo Management Services Ltd.	13	12	-	-
McCullough O'Connor Irwin LLP	6	12	1	-
Total	**71**	**75**	**33**	**18**

The Company receives services from various subsidiary companies of Lundin Petroleum AB ("Lundin"), a shareholder of the Company. Lundin charges during the three months ended March 31, 2018 of $52 (2017: $51) were comprised of office rental, administrative and building services of $45 (2017: $44) and investor relations services of $7 (2017: $7).

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.

SHAMARAN PETROLEUM CORP.

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Chris Bruijnzeels
Director, President & Chief Executive Officer
Geneva, Switzerland

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Vancouver, British Columbia

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C. Ashley Heppenstall
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