SHAMARAN petroleum corp

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Financial Report

For the three and six months ended June 30, 2019 (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.

Contents

Management's Discussion and Analysis
For the three and six months ended June 30, 2019

INTRODUCTION

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" or "We") is prepared with an effective date of August 7, 2019. The MD&A should be read in conjunction with the unaudited condensed interim consolidated financial statements for the three and six months ended June 30, 2019, together with the accompanying notes.

Basis of Preparation

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

Overview of the Company

ShaMaran is a Canadian oil and gas company listed on the TSX Venture Exchange and the NASDAQ First North Exchange (Stockholm) under the symbol "SNM." ShaMaran has created a foundation for growth. The Company has a 27.6% ownership interest in Atrush Block, a high-quality oil field in Kurdistan that has a large production base with significant growth potential. We are generating cash flow that can fund organic growth and the Company is now strongly positioned to act on new accretive opportunities as they present themselves. As a Lundin Group Company, ShaMaran can leverage the expertise and strength of a family that has been building resource companies around the world for more than 40 years.

Oil production from Atrush commenced in July 2017. Installed production facilities have a capacity of over 39,000 barrels of oil per day ("bopd"). Twelve wells have been drilled to date and seven wells are currently producing.

Atrush's production guidance for 2019 is 30,000 to 35,000 bopd, with an expected production of 45,000 to 50,000 bopd at 2019 exit. Installation of additional facilities during 2020 is expected to increase production capacity towards 80,000 bopd and an investment decision related to increasing Atrush production up to 100,000 bopd is expected mid-2020.

The Atrush Block is located in the Kurdistan Region of Iraq, 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. Total discovered oil in place in the Atrush Block is a low estimate of 1.5 billion barrels, a best estimate of 2 billion barrels and a high estimate of 2.6 billion barrels.

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.

SECOND QUARTER 2019 HIGHLIGHTS AND SIGNIFICANT SUBSEQUENT EVENTS

In second quarter, we strengthened our ownership interest in the Atrush Block, saw more production brought online as planned and generated cash flow. The Company believes it has created a strong and stable foundation to deliver future growth.

Corporate

The Company increased ownership interest in Atrush by 37.3% giving shareholders greater exposure to a high-quality, producing asset.

- Completed the acquisition of an additional 7.5% participating interest in the Atrush Block production sharing contract ("PSC"), bringing ShaMaran's total interest in Atrush up from 20.1% to 27.6% as of May 30. The PSC has been reduced to three partners from four.

Renewed leadership.

- Dr. Adel Chaouch was appointed President and Chief Executive Officer of ShaMaran and member of the Board of Directors, replacing Chris Bruijnzeels. Mr. Bruijnzeels was appointed Chair of the Board of Directors, replacing Keith Hill who will remain a Board member. Will Lundin was elected to the board at the Annual General Meeting on June 26, replacing Brian Edgar who did not stand for re-election.

Operations

Met average production guidance for the year.

- Atrush's production guidance for 2019 is 30,000 to 35,000 bopd. Average production for Q2 2019 was 28,295 bopd. Subsequent to second quarter, July 2019 average production was 33,900 bopd.
- Compared to year previous, average daily oil production increased 79% for the quarter (28,295 bopd vs. 15,767 bopd) and 39% for the six months ended June 30 (27,295 bopd vs. 19,681 bopd).

Increased well capacity through to remainder of year.

- The Chiya Khere-6 ("CK-6") well was recompleted in February 2019 and came online for production in May 2019 at 4,500 bopd.
- The Chiya Khere-11 ("CK-11") was drilled to depth by mid-March, came online for production in May 2019, is currently producing at 5,500 bopd and has potential to be increased up to 8,500 bopd.
- The Chiya Khere-12 ("CK-12") well was drilled to depth at the end of May 2019, is currently being tested and is expected to be online for production in August 2019.
- The Chiya Khere-13 ("CK-13") well was spudded in June 2019 and is expected to be online for production in Q4 2019.

Advanced necessary infrastructure in lockstep with growing well capacity.

- Heavy oil extended well test ("HOEWT") facilities have been installed and commissioned, testing from the Atrush-3 ("AT-3") commenced in mid-April and is currently ongoing.
- The HOEWT will be maintained and available to provide an additional 5,000 bopd medium oil processing capacity through 2019, which would be produced from CK-6.
- The existing production facilities processing capacity has been increased to 34,000 bopd (from a nameplate capacity of 30,000bopd). Additional debottlenecking will be completed in Q4 2019 and is expected to increase capacity to 38,000 bopd.
- The procurement process for Atrush Early Production Facilities ("EPF") is underway. It is expected these facilities will deliver an additional 10,000 bopd processing capacity in the second half of 2019.

Increased 2P reserves

- Total Field Proven plus Probable ("2P") Reserves on a property gross basis for Atrush increased from 102.7 million barrels reported as at December 31, 2017, to 106 million barrels which, when 2018 Atrush production of 8 million barrels is included, represents an increase of 11%. This equates to a 2P Reserves replacement ratio of 2018 production of 140%.

Financial

Financed acquisition of additional ownership interest through existing cash.

- Upon close of the acquisition of an additional 7.5% of Atrush in May 2019, total cash payments of $27.2 million were made, financed from existing cash. The total cash payments are equal to 50% of the $63 million price previously announced on December 27, 2018 (which corresponded to a purchase of 15% of Atrush), less all other final closing adjustments including half of the net Atrush cash flows received by Marathon after January 1, 2018, the effective date of the acquisition.

Continued to self-fund Atrush development with stable cash inflows.

- The Company received $7.1 million for its entitlement share of Atrush PSC profit oil and cost oil for April 2019 oil deliveries. For January 2019 through to April 2019 oil sales, the Company has received $22.5 million.

- The Company received $0.8 million of Atrush Exploration Costs receivable[1] on April 2019 oil sales. From January through to April 2019 oil sales, the Company has received $1.6 million.
- The Company received $4.9 million in payments of principal plus interest on the Atrush Development Cost Loan and the Atrush Feeder Pipeline Cost loans for invoices from April to June 2019. An additional $1.8 million has been collected following the balance sheet date.

OPERATIONS REVIEW

Production

	Three months ended June 30		Six months ended June 30	
	2019	2018	**2019**	2018
Atrush average daily oil production – gross 100% field (Mbopd)	28.3	15.8	27.3	19.7
ShaMaran working interest in Atrush average daily oil production (Mbopd)	6.4	3.2	5.8	4.0
Atrush oil sales – gross 100% field (Mbbl)	2,575	1,435	4,940	3,562
ShaMaran entitlement of Atrush oil sales (Mbbl)	284	259	537	777

Oil production at Atrush continues to grow incrementally as planned with production in Q2 2019 80% higher than Q2 2018 due to:

- Resolution of processing constraints associated with salt production
- Additional production from new wells CK-7, CK-10, CK-11 and CK-6
- Installation and operations of HOEWT facility at Pad C

During the second quarter of 2019, additional production from new completions (CK-11 and CK-6) and increases in processing capacity from the successful first phase of Production Facility debottlenecking, contributed to steady increases in Atrush production rates through April and May.

Following the failure of the CK-8 ESP in late May, resulting in more than 10,000 bopd daily production deferment, production averages were still maintained above 27,000 bopd throughout June. Atrush is currently producing at an approximate rate of 33,900 bopd.

Q2 2018 to Q2 2019 production entitlement increased by 10% only. This is due to the production entitlement for the first six months of 2018 being inflated due to an adjustment for the cost sharing arrangement (see the section on “Revenue” within the “Financial Results” section for further information).

Further variances in past production are outlined in more detail in our year-end 2018 MD&A.

Drilling and Testing

Activities focused on CK-11, CK-12, CK-13 and AT-3 well locations in the second quarter.

CK-11 at Chamanke-G drilling location was completed using a workover rig and came online for production on May 10, 2019. The well is currently producing at 5,500 bopd and, with the high observed productivity, has potential to be increased up to 8,500 bopd following the next well workover for ESP replacement.

The CK-12 well at Chamanke-E drilling location was drilled to total depth of 2,400 metres (“m”) by May 19, encountering the reservoir section 25m deeper than expected. To optimize the utilization of the drilling rig, the CK-12 well was left cased and suspended, and the drilling rig moved to CK-13 on the Chamanke-C drilling location. A workover rig was used to complete CK-12 in July 2019, the well is currently being tested and it is expected the CK-12 well will come online for production in August 2019.

The CK-13 well was spudded from the Chamanke-C drilling location on June 17 and, at the date of the MD&A, the rig is currently drilling 12 ¼”-inch hole section at 2,289m. It is expected this well will be completed and online in October 2019.

The AT-3 heavy oil well was brought online on April, unloading completion fluids from the Sargelu formation. Subsequent to the loss of production from the CK-8 well in June, it was decided to temporarily suspend the AT-3 testing and instead utilize the HOEWT facility

[1] 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 are deemed to be Exploration Costs

to produce medium oil from the CK-6 well during June. Following a minor modification to the HOEWT facility on July 6, AT-3 was once again placed on production from July 7 and the heavy oil testing at AT-3 is currently ongoing and expected to be concluded during 2019. Results of the heavy oil testing at AT-3 will be used to support investment decisions associated with developing Atrush heavy oil resources.

Facilities

During Q2 necessary infrastructure was advanced to support our growth forecasts.

With the successful utilization of the HOEWT facilities to process and deliver up to 5,000 bopd of CK-6 medium oil it is expected this facility will be maintained on location during the second half of 2019.

Capacity testing of the existing production facilities over a 48-hour period in May 2019 proved the ability to process up to 34,000 bopd, 4,000 bopd above the nameplate capacity of 30,000 bopd. The installation of desalter units during Q4 2019 is expected to further expand the processing capacity at the existing production facilities to 38,000 bopd.

Procurement of an EPF is ongoing and it is planned that this facility will deliver an additional 10,000 bopd processing capacity during Q4, 2019.

Reserves and Resources

In February 2019, the Company reported estimated reserves and contingent resources for the Atrush field as at December 31, 2018, as reported by the Company's independent reserves and resources evaluator, McDaniel & Associates Consultants Ltd ("McDaniel").

Total Field Proven plus Probable ("2P") Reserves on a property gross basis for Atrush increased from 102.7 million barrels reported as at December 31, 2017, to 106 million barrels which, when 2018 Atrush production of 8 million barrels is included, represents an increase of 11%. This equates to a 2P Reserves replacement ratio of 2018 production of 140%.

Total Field Unrisked Best Estimate Contingent Oil Resources ("2C")[2] on a property gross basis for Atrush decreased from the 2017 estimate of 296 million barrels to 268 million barrels. Total discovered oil in place in the Atrush Block is a low estimate of 1.5 billion barrels, a best estimate of 2 billion barrels and a high estimate of 2.6 billion barrels.

For more information on reserves and resources, please reference our year-end MD&A or our Form 51-101 F1 Statement of Reserves Data and Other Oil and Gas Information as of December 31, 2018.

Operations Guidance

The Company maintains the following guidance for 2019:

- Atrush field gross average production is expected to range from 30,000 bopd to 35,000 bopd. Final 2019 average production will depend mainly on the timing of debottlenecking of the existing production facilities and the delivery of the EPF.
- Atrush lifting costs are estimated to range from $6.30 per barrel to $7.90 per barrel. Atrush lifting costs are mainly fixed costs and therefore we expect the dollar-per-barrel estimates to decrease with increasing levels of production; and
- Atrush gross capital expenditures for 2019 is estimated at $137 million which includes:
    - installation of a 10,000 bopd EPF at Pad E and debottlenecking of existing production facilities to 38,000 bopd, to extend Atrush total oil processing capacity to over 50,000 bopd in the second half of 2019
    - re-completing the CK-6 well
    - drilling, testing and completion activities at CK-11, CK-12, CK-13 and CK-15.
    - expansion of processed oil storage capacity to reduce impact of export pipeline shutdowns on Atrush production rates
    - installation of a desalter vessel at the Processing Facilities to reduce the operating costs associated with the short-term salt mitigation measures
    - construction of the Chamanke-D drilling location to enable addition of future production wells

Following the 2019 drilling program, the extended well testing in AT-3 and increased production, the Company expects to further increase Atrush production capacity towards 80,000 bopd during 2020. Ongoing de-risking of the significant undeveloped Atrush resource base will enable an investment decision to be made mid-2020 for further development phases which have the potential to increase Atrush production over 100,000 bopd.

[2] 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.

Business Overview

Corporate

Effective May 15, Dr. Adel Chaouch was appointed President and Chief Executive Officer of ShaMaran and member of the Board of Directors, replacing Chris Bruijnzeels. Mr. Bruijnzeels was appointed Chair of the Board of Directors, replacing Keith Hill, who will remain a Board member. Will Lundin was elected to the board at the Annual General Meeting on June 26, replacing Brian Edgar, who did not stand for re-election.

Dr. Adel Chaouch previously headed Marathon Oil Company's interests in the MENA region. He presided over Marathon Oil Kurdistan, a business he has overseen since 2011, and in that capacity was ShaMaran's partner in the Atrush block. He was the chairman of the consortium of private owners for the Waha operating company in Libya until early 2018. Dr. Chaouch was instrumental in establishing the mega gas hub in Equatorial Guinea and also directed the opportunity team that successfully re-entered Gabon through operated and non-operated interests in deep water exploration off the Gulf of Guinea.

Mr. Lundin is currently project engineer, production operations, with International Petroleum Corp., with a portfolio of assets located in Canada, Europe and South East Asia. From September 2016 to March 2018, Mr. Lundin held the position of plant operator with Black Pearl Resources Inc., at its Onion Lake prospect located in Onion Lake, Saskatchewan, Canada.

Ownership and Principal Terms of the Atrush PSC

Ownership

At the end of June 2019 ShaMaran, through its wholly owned subsidiary, General Exploration Partners, Inc. ("GEP"), held a 27.6% direct interest in the Atrush PSC. The other interests in Atrush are held by TAQA Atrush B.V. ("TAQA" a subsidiary of Abu Dhabi National Energy Company PJSC, and the "Operator" of the Atrush Block) with a 47.4% direct interest and the KRG a 25% direct interest. TAQA and GEP 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.

On May 30, MODKV sold their 15% interest jointly to TAQA Atrush B.V and GEP, increasing the Company's interest in the Atrush Block from 20.1% to 27.6%.

For additional background and history on Atrush ownership please refer to the Company's MD&A for the year ended December 31, 2018.

Principal Terms of the Atrush PSC

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%.

Outlook

ShaMaran's completion of its acquisition of an increased ownership interest in Atrush Block in the second quarter was a significant event. The Company believes its 27.6% interest in Atrush Block provides a stable foundation for future growth. Atrush Block is a high-quality oil field that has a large production base and significant growth potential. We are generating cash flow that can fund organic growth and the Company is now strongly positioned to act on new accretive opportunities as they present themselves. As a Lundin Group Company, ShaMaran can leverage the expertise and strength of a family that has been building resource companies around the world for more than 40 years.

FINANCIAL REVIEW

Financial Results

Selected Financial Information

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

USD Thousands (except per share data)	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017
Continuing operations:								
Revenue	**15,071**	12,071	14,531	13,240	15,328	26,501	13,907	3,782
Cost of goods sold	**(12,233)**	(10,307)	(15,969)	(6,945)	(6,990)	(12,168)	(9,426)	(4,583)
Net gain on Atrush acquisition	**750**	-	-	-	-	-	-	-
General and admin expense	**(1,996)**	(1,580)	(1,913)	(785)	(941)	(925)	(966)	(1,637)
Share based payments	**(400)**	-	-	-	-	-	-	-
Depreciation and amortization	**(3)**	(2)	(1)	(1)	(2)	(4)	-	(8)
Finance cost	**(5,449)**	(9,067)	(7,347)	(8,586)	(3,016)	(4,230)	(5,802)	(3,436)
Finance income	**235**	408	900	369	444	443	361	525
Income tax expense	**(43)**	(18)	(25)	(12)	(11)	(16)	(14)	(36)
Net (loss) / income	**(4,068)**	**(8,495)**	**(9,824)**	**(2,720)**	**4,812**	**9,601**	**(1,940)**	**(5,393)**
Basic and diluted net (loss) / inc. in $ per share	**(0.002)**	(0.004)	(0.005)	(0.001)	0.002	0.004	(0.001)	(0.002)

Summary of Principal Changes in the Second Quarter Financial Information

In the second quarter of 2019 production from the Atrush Block and work on the Atrush development program continued. The net loss was primarily being driven by higher cost of goods sold, due to high lifting costs and depletion costs, and higher general and administrative expenses in the quarter. The details of which are explained below.

The Company's operations are comprised of the development program and production operations 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

	Three months ended June 30		Six months ended June 30	
USD Thousands	**2019**	**2018**	**2019**	**2018**
Revenue from Atrush oil sales	15,071	15,328	27,142	41,829
Lifting costs	(5,372)	(2,463)	(9,598)	(4,889)
Other costs of production	(767)	119	(1,447)	(83)
Depletion costs	(6,094)	(4,646)	(11,495)	(14,186)
Cost of goods sold	**(12,233)**	**(6,990)**	**(22,540)**	**(19,158)**
Gross margin on oil sales	**2,838**	**8,338**	**4,602**	**22,671**

Revenue: relates to the Company's entitlement share of oil sales from Atrush

In Q2 2019 gross exported volumes from Atrush were 2.6 MMbbl (Q2 2018 1.4MMbbl) or 28.3Mbopd on average (Q2 2018: 15.8Mbopd) and the Company's entitlement share was approximately 284 Mbbls (Q2 2018: 259 Mbbl) which were sold with an average netback price of $53.06 per barrel (Q2 2018: $58.88).

Revenue from oil sales in Q2 2019 of $15.1 million was slightly lower compared to $15.3 million reported in Q2 2018 due to the lower average netback price combined and lower production entitlement share, and despite a higher daily average production rate.

The priority arrangement with TAQA for sharing initial exploration cost oil, which was complete towards the end of the first half of 2018, created a significant uplift in the Company's production entitlement share and revenues compared to the first half of 2019[3].

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, insurance, and the Operator's related support costs. The average lifting cost per barrel of oil produced from Atrush was $9.28 per barrel in Q2. 2019 (Q2 2018: $7.97 per barrel), due mainly to the costs of the CK-8 well workover incurred in the period.

Other costs of production: include the Company's share of production bonuses paid to the KRG, HOEWT operating costs (there were no HOEWT costs in 2018) and its share of other costs prescribed under the Atrush PSC.

Depletion: The depletion cost per entitlement barrel in Q2 2019 was $21.46(Q2 2018: $17.94). The increase was mainly due to an upward revision in estimated future development costs provided by McDaniel at the end of 2018.

Net Gain on Atrush acquisition

On May 30, 2019, ShaMaran completed its acquisition of an additional 7.5% participating interest in the Atrush block. Under two separate purchase and sale agreements, done in contemplation of one another, ("SPA"s) ShaMaran's wholly owned subsidiary, General Exploration Partners, Inc. ("GEP"), acquired directly Marathon Oil KDV B.V.'s ("MOKDV") full 15% participating interest in the Atrush Block and immediately thereafter sold a 7.5% Atrush participating interest to TAQA Atrush B.V. ("TAQA" and Operator of the Atrush Block), bringing the Company's total interest in Atrush up to 27.6%. The total consideration paid to complete the acquisition was $27.2 million, comprised of $17.4 million paid to Marathon, $1 million of PSC capacity building bonuses accounts payable paid to the Kurdistan Regional Government of Iraq ("KRG") on behalf of MOKDV and in conjunction with the payment to MOKDV, and $8.8 million of net acquisition related costs. The $8.8 million of net acquisition related costs were comprised of $9.5 million of PSC capacity building bonuses paid to the KRG and $750 thousand of payments received from TAQA and were not considered part of the purchase price of the acquisition in line with IFRS 3 and have been expensed as incurred within the Statement of Comprehensive Income. The fair value of the net identifiable assets and liabilities acquired exceeded the $18.4 million purchase price paid resulting in a bargain purchase gain.

This acquisition has been accounted for as an increase in the participating interest in a joint operation (following the guidance for a business combination in accordance with IFRS 3) and the purchase price has been allocated, on a preliminary basis, as follows:

USD Thousands	
Purchase price paid for 7.5% (total cash paid less net acquisition related costs)	18,431
Identifiable assets and liabilities acquired at fair value*:	
Property, plant and equipment	(11,549)
Atrush Exploration costs receivable	(12,550)
Accounts receivable on Atrush oil sales	(7,378)
Atrush Development Cost loan	(1,764)
Atrush Feeder Pipeline loan	(1,087)
Provision for decommissioning and site restoration**	4,003
Accounts payable and accrued liabilities	2,393
Bargain purchase gain	9,500
Acquisition related costs – net	(8,750)
Net gain on Atrush acquisition	**750**

* IFRS 3 requires to fair value all assets and liabilities acquired. This included the fair market value of the property, plant and equipment acquired, which the Company has approximated with reference to the $18.4m price paid in the acquisition and other market indicators of the value of the property. All other fair values 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.

**The fair value of the provision for decommissioning and site restoration at the acquisition date was based on the estimated future cash flows to retire the acquired portion of the oil and gas property at the end of its useful life. The discount rate used to determine the net present value of the provision was a rate of 1.71 percent (the Bank of Canada's long-term bond yield rate).

[3] The Company's entitlement share in the first two quarters of 2018 included an adjustment for the exploration cost sharing arrangement between TAQA and GEP. TAQA and GEP had 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 received the initial $10.8 million and GEP received the next $39.1 million. Thereafter cost oil revenues for these two parties has been determined by their relative participating interests in the Atrush PSC. The Company's entitlement share of oil sold in 2018 reflects a full recovery of the $39.1 million.

General and administrative expense

USD Thousands	Three months ended June 30		Six months ended June 30	
	2019	2018	2019	2018
Salaries and benefits	1,371	500	2,008	996
Management and consulting fees	332	79	796	193
General and other office expenses	95	80	179	162
Travel expenses	90	125	122	145
Listing costs and investor relations	74	121	182	200
Legal, accounting and audit fees	34	36	289	170
General and administrative expense	**1,996**	**941**	**3,576**	**1,866**

The higher general and administrative expense incurred in Q2 2019 compared to Q2 2018 was principally due to 50% of 2018 discretionary management bonus payments paid in June 2019, an increase in staff in the Company's Swiss office plus additional consultancy costs mainly related to an increase in the Company's business development activities.

Share based payments expense

USD Thousands	Three months ended June 30		Six months ended June 30	
	2019	2018	2019	2018
DSU expense	219	-	219	-
Option expense	181	-	181	-
Total share-based payments	**400**	**-**	**400**	**-**

The share-based payments expense results from the vesting of stock options and granted deferred share units (DSU's) in the year 2019. In the period ended June 30, 2019, 10,000,000 stock options and 3,600,625 DSU's were granted (year 2018: nil). The Company uses the fair value method of accounting for stock options and DSU's granted to directors, officers, employees and consultants whereby the fair value of all stock options granted is recorded as a charge to operations. DSU's are only granted to non-employee directors of the Company and may not be redeemed until a minimum period of three months has passed following the end of service as a director of the Company. The fair value of common share options granted is estimated on the date of grant using the Black-Scholes option pricing model.

Depreciation and amortization expense

USD Thousands	Three months ended June 30		Six months ended June 30	
	2019	2018	2019	2018
Depreciation and amortization expense	3	2	5	6

Depreciation and amortization 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

USD Thousands	Three months ended June 30		Six months ended June 30	
	2019	**2018**	**2019**	**2018**
Interest on Atrush Development Cost Loan	92	227	205	495
Interest on deposits	81	10	297	18
Interest on Atrush Feeder Pipeline Cost Loan	62	147	136	314
Total interest income	**235**	**384**	**638**	**827**
Foreign exchange gain	-	60	3	-
Total finance income	**235**	**444**	**641**	**827**

The loan interest amounts reported represent 7% per annum interest on the principal balances outstanding over the period. The interest on the loans decreased in Q2 2019 compared to Q2 2018 due to declining principal balances as the loans are being repaid. 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, investments and restricted cash held in interest bearing funds. The increase in interest income reported in Q2 2019 relative to the amount reported in Q2 2018 is due to a higher level of interest bearing funds held in 2019.

Finance cost

USD Thousands	Three months ended June 30		Six months ended June 30	
	2019	**2018**	**2019**	**2018**
Interest charges on bonds at coupon rate	5,636	5,359	11,953	10,719
Amortization of bond transaction costs	32	210	782	420
Re-measurement of bond debt	-	-	2,131	-
Total borrowing costs	**5,668**	**5,569**	**14,866**	**11,139**
Foreign exchange loss	2	-	-	10
Unwinding discount on decommissioning provision	(1)	(11)	9	(6)
Total finance costs before borrowing costs capitalized	**5,669**	**5,558**	**14,875**	**11,143**
Borrowing costs capitalized	(220)	(2,542)	(361)	(3,957)
Finance cost	**5,449**	**3,016**	**14,514**	**7,186**

The increase in interest charges on bonds at coupon rate reported in Q2 2019, compared to Q2 2018, is due to more bonds outstanding at the balance sheet date, $190 million at Q2 2019 compared to $186.4 million at Q2 2018, and an increase in the coupon rate of 0.5%, 12% in Q2 2019 compared to 11.5% in Q2 2018.

Amendments to the ShaMaran Bonds agreement in February 2019, including the repayment of $50 million of ShaMaran Bonds, changed future cashflows which resulted in the re-measurement of the carrying value of the remaining debt in line with IFRS 9 Financial Instruments. The value of the ShaMaran Bonds has been determined based on the net present value of future cash flows, which no longer includes original transaction costs incurred in 2018, discounted at the original effective interest rate resulting in a loss of $2.1 million in the first quarter of 2019.

Amortization of bond transaction costs in the six months ended June 30, 2019, includes a loss of $671 thousand related to the partial settlement of debt in the period.

Borrowing costs are capitalized where they are directly attributable to the acquisition of, and preparation for their intended use, Atrush development assets. All other borrowing costs are recognized in profit or loss in the period in which they are incurred. The significant decrease in capitalized borrowing costs in Q2 2019, compared to Q2 2018, is due to a significant number of development projects having been completed for their intended use. For further information on the Company's borrowings refer to the discussion in the section below entitled "Borrowings".

Income tax expense

USD Thousands	Three months ended June 30		Six months ended June 30	
	2019	**2018**	**2019**	**2018**
Income tax expense	43	11	61	27

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 increase in tax expense reported in Q2 2019 compared to Q2 2018 is primarily due to higher taxable income in the Company's Swiss subsidiary which increased due to higher costs of service.

Capital Expenditure

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:

USD Thousands	Six months ended June 30, 2019			Year ended December 31, 2018		
	Oil and gas assets	Office equipment	Total	Oil and gas assets	Office equipment	Total
Opening net book value	**195,897**	**11**	**195,908**	**184,918**	**3**	**184,921**
Additions	10,234	65	10,299	17,356	12	17,368
Reclass from intangible E&E assets	-	-	-	21,794	-	21,794
Atrush acquisition	11,549	-	11,549	-	-	-
Depletion and depreciation expense	(11,495)	(3)	(11,498)	(28,171)	(4)	(28,175)
Net book value	**206,185**	**73**	**206,258**	**195,897**	**11**	**195,908**

During the first six months of 2019 movements in PP&E were comprised of additions of $10.4 million (year 2018: $17.4 million), Atrush acquisition increase of $11.5 million (year 2018: $nil), depletion and depreciation expense of $11.5 million (year 2018: $28.2 million) and a reclass to PP&E from E&E of $nil (year 2018: $21.8 million) which resulted in a net increase of $10.3 million to the net book value of PP&E assets. Net additions in the first six months of 2019 included capitalized borrowing costs of $0.4 million (year 2018: $5.0 million). For further information on the Atrush acquisition PP&E asset increase of $11.5 million please see the section above "Net gain on Atrush acquisition".

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:

USD Thousands	Six months ended June 30, 2019			Year ended December 31, 2018		
	E&E assets	Software & Licences	Total	E&E assets	Software & Licences	Total
Opening net book value	**67,825**	**4**	**67,829**	**89,113**	**6**	**89,119**
Reversal / (additions)	(210)	-	(210)	506	3	509
Reclass to PP&E	-	-	-	(21,794)	-	(21,794)
Amortization expense	-	-	-	-	(5)	(5)
Net book value	**67,615**	**4**	**67,619**	**67,825**	**4**	**67,829**

During the six months of 2019 movements in intangible assets comprised of a net reversal of $210 thousand (year 2018: $509 thousand for additions) mainly due to the release of an overestimate of insurance costs, there was $nil depreciation (year 2018: $5 thousand) and a reclass of $nil (year 2018: $21.8 million) from E&E to PP&E, this resulted in a net decrease to intangible assets of $210 thousand.

Financial Position and Liquidity

Loans and receivables

In November 2016 the Company entered into certain agreements with the KRG and other Atrush contractors for the reimbursement by the KRG to the Atrush contractors of certain Atrush exploration and development costs and pipeline costs incurred by KRG in the years 2013 through 2017 which were funded by the Atrush contractors. The Atrush Exploration Costs receivables, which relate to a share of the KRG's development costs carried by ShaMaran prior to the year 2016 and deemed to be exploration costs under the Atrush PSC, are repaid through an accelerated petroleum cost recovery arrangement. The Atrush Development Cost Loan and the Atrush Feeder Pipeline Cost Loan are being repaid with interest at 7% per annum in 24 equal monthly instalments ending in October 2019. The Company was owed amounts for its entitlement share of oil deliveries made to the KRG during the last three months.

The Company had loans and receivables outstanding as follows:

USD Thousands	For the six months ended June 30, 2019	For the year ended December 31, 2018
Atrush Exploration Costs receivable	45,868	34,898
Accounts receivable on Atrush oil sales	19,115	14,531
Atrush Development Cost Loan	3,710	7,136
Atrush Feeder Pipeline Cost Loan	2,599	4,718
Total loans and receivables	**71,292**	**61,283**

In the first six months of 2019 the Company received principal plus interest payments totaling $5.4 million for Atrush Development Cost Loan and $3.3 million for the Atrush Feeder Pipeline Cost Loan, as well as $1.6 million of Atrush Exploration Cost receivables.

In the period from the balance sheet date up to the date of this MD&A the Company received $9.7 million in total payments for loans and receivables balances outstanding at June 30, 2019, comprised of $7.1 million in total payments for its entitlement share of oil sales for the month of April 2019, $1.8 million for Atrush Development Cost Loan and Atrush Feeder Pipeline Cost Loan balances outstanding and $0.8 million in reimbursements of the Atrush Exploration Costs receivable.

The loans and receivables balances include those from the acquisition, see the "Atrush acquisition" section above for further information.

Borrowings

On February 1, 2019, bondholders approved of certain amendments to the $240 million of senior unsecured bonds ("the ShaMaran bonds") agreement including the repayment of $50 million plus accrued interest and the release to the Company of $14.4 million of Company cash pledged to the bondholders as security for the Company's obligations under the ShaMaran bonds to be used to fund the acquisition and for general corporate purposes. On February 8, 2019 the Company repaid $50 million of ShaMaran Bonds and $550 thousand of related accrued interest. At June 30, 2019, there were $190 million of ShaMaran Bonds outstanding.

Nemesia S.à.r.l. ("Nemesia"), a company controlled by a trust settled by the estate of the late Adolf H. Lundin, agreed to guarantee the Company's obligations under the ShaMaran Bonds agreement (the "Liquidity Guarantee"). In exchange for providing the Liquidity Guarantee the Company issued Nemesia 2,000,000 common shares of ShaMaran on January 23, 2019. The fair value of the shares issued of $150 thousand has been accounted for as bond transaction costs and is being amortized over the term of the bonds.

The movements in borrowings are explained as follows:

USD Thousands	6 months ended June 30, 2019	12 months ended December 31, 2018
Opening balance	**250,797**	**188,491**
Interest charges at coupon rate	11,953	25,428
Re-measurement of bond debt	2,131	-
Amortization of bond transaction costs	782	1,087
Bond issued – net of transaction costs	-	236,361
Call premiums on early retirement of bonds	-	1,427
Bond transaction costs	(150)	-
Payment to Bondholders – interest and call premiums	(14,950)	(15,575)
Bonds retired	(50,000)	(186,422)
Ending balance	**200,563**	**250,797**
Current portion: accrued bond interest expense	11,083	14,080
Non-current portion: borrowings	189,480	236,717

The remaining contractual obligations under the ShaMaran Bonds, which are comprised of the repayment of principal and interest expense based on undiscounted cash flows at payment date and are based on the current $190 million of bonds outstanding thereafter until a further reduction in ShaMaran Bonds outstanding to $175 million is completed in July 2020, are as follows:

USD Thousands	
Less than one year	22,800
From one to two years	36,900
From three to five years	227,500
Total	**287,200**

Liquidity and Capital Resources

Working capital at June 30, 2019 was positive $48.7 million compared to positive $112.9 million at December 31, 2018. The decrease in working capital since December 31, 2018 is principally due to the repayment of $50 million of ShaMaran Bonds in February 2019 and the total cash out of $27.2 million on the acquisition of an additional interest in Atrush completed in May 2019.

The overall cash position of the Company decreased by $72.9 million during the first half of 2019 (H1 2018: increase of $22.0 million) during the same period of 2018. The main components of the movement in funds were as follows:

- The operating activities of the Company during H1 2019 resulted in an increase in the cash position of $3.7 million (H1 2018: increase of $29.3 million). The cash position is explained by the net loss of $12.6 million less $16.2 million of net positive cash adjustments from working capital items, net borrowing costs and non-cash expenses including the net gain on the Atrush acquisition.
- Net cash outflows from investing activities in the first half of 2019 were $11.7 million (H1 2018: inflows of $3.4 million). Cash outflows from investing activities in H1 2019 were comprised of cash outflows of $18.4 million for the Atrush acquisition and $4.8 million on investments in the Atrush Block development work program net of cash inflows of $11.3 million in payments by the KRG of Atrush loans and receivables, which includes interest on the loans, and $0.3 million of interest on deposits.
- Net cash outflows from financing activities in H1 2019 were $65 million (H1 2018: cash outflows of $10.7 million) due to the repayment by the Company of $50 million of ShaMaran Bonds together with $550 thousand of related accrued interest as well as $14.4 million for the first semi-annual interest payment to ShaMaran bondholders in January 2019.

The condensed interim consolidated financial statements were prepared on the going concern basis which assumes that the Company will be able to realize its assets and liabilities in the normal course of business as they come due in the foreseeable future.

Off Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Transactions with Related Parties

	Purchase of services for periods ended June 30,				Amounts owing	
	Three months		Six months		At the balance sheet dates	
USD Thousands	2019	2018	2019	2018	June 30, 2019	December 31, 2018
Namdo Management Services Ltd.	13	13	25	26	-	-
Lundin Petroleum AB	-	52	-	104	-	-
Bennett-Jones	-	5	-	11	-	-
Total	**13**	**70**	**25**	**141**	**-**	**-**

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.

The Company received services from various subsidiary companies of Lundin Petroleum AB ("Lundin"), a shareholder of the Company until June 21, 2018 when Lundin sold its ShaMaran shares. Lundin is not considered a related party in 2019.

Bennett-Jones is a law firm in which an officer of the Company was a partner and has provided legal services to the Company. The officer retired from Bennett-Jones at the end of 2018 therefore Bennett-Jones is not considered a related party in 2019.

Nemesia is a new related party in 2019 after the Company issued Nemesia 2,000,000 common shares of ShaMaran on January 23, 2019, in exchange for providing the Liquidity Guarantee for the ShaMaran bonds.

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, Share Units and Stock Options" section below.

Outstanding Share Data, Share Units and Stock options

Common shares

On January 23, 2019, the Company issued to Nemesia 2,000,000 common shares of ShaMaran in accordance with the terms of the Liquidity Guarantee. Therefore, the Company had 2,160,631,534 outstanding shares at June 30, 2019, 2,193,631,534 outstanding shares after dilution and at the date of this MD&A. Refer also to the discussion under the Borrowings section above. The average outstanding shares during the first six months of 2019 were 2,160,377,390 before dilution (year 2018: 2,158,631,534) and 2,193,377,390 after dilution (year 2018: 2,183,631,534).

Share units

The Company has established share unit plans and a share purchase option plan whereby a committee of the Company's Board may, from time to time, grant up to a total of 10% of the issued share capital to directors, officers, employees or consultants. The number of shares issuable under these plans at any specific time to any one recipient shall not exceed 5% of the issued and outstanding common shares of the Company. Under the share unit plans the Company may grant performance share units ("PSU"), restricted share units ("RSU") or deferred share units ("DSU"). PSU grants may be awarded annually to employees, directors or consultants ("Participants") based on the fulfilment of defined Company and individual performance parameters. RSU grants may be awarded to Participants annually based on the fulfilment of defined Company performance parameters. RSUs and PSUs will vest based on the conditions described in the relevant grant agreement and, in any case, no later than the end of the third calendar year following the date of the grant. DSU's may be awarded annually to non-employee directors of the Company based on the performance of the Company and vest immediately at the time of grant, DSUs may not be redeemed until a minimum period of three months has passed following the end of service as a director of the Company. The share unit plans provide for redemption of the share units by way of payment in cash, shares or a combination of cash and shares. Under the option plan the term of any options granted under the option plan will be fixed by the Board and may not exceed five years from the date of grant. A four month hold period may be imposed by the stock exchange from the date of grant. Vesting terms are at the discretion of the Board. All issued share options have terms of five years and vest over two years from grant date. The exercise prices reflect trading values of the Company's shares at grant date.

On May 30 ,2019, a total issue of 3,600,625 DSU's were made to the non-employee directors of the Company (year 2018: nil). There has been no further change in the number of share units outstanding from June 30, 2019, to the date of this MD&A.

Stock options

At June 30, 2019 there were 33,000,000 stock options outstanding under the Company's employee incentive stock option plan. During the current year to date 10,000,000 stock options were granted to the Company's new President and Chief Executive Officer,

Dr. Adel Chaouch (Year 2018: nil) and 2,000,000 stock options expired (year 2018: 3,165,000). No stock options were exercised in the year to date 2019 (year 2018: nil). There has been no further change in the number of stock options outstanding from June 30, 2019, to the date of this MD&A.

The Company has no warrants outstanding.

Contractual Obligations and Commitments

Atrush Block Production Sharing Contract

As at June 30, 2019, the outstanding commitments of the Company were as follows:

	For the year ended June 30,				
USD Thousands	2020	2021	2022	Thereafter	Total
Atrush Block development	37,716	120	120	1,328	39,284
Office and other	138	123	113	-	374
Total commitments	**37,854**	**243**	**233**	**1,328**	**39,658**

Amounts relating to Atrush Block development represent the Company's unfunded paying interest share of 27.6% of the approved 2019 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: $13.3 million at 25 million barrels (ShaMaran share: $3.67 million); and $23.3 million at 50 million barrels (ShaMaran share: $6.43 million).

Critical Accounting Policies and Estimates

The unaudited condensed interim 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 utilized in calculating depletion, asset retirement obligations, fair values of assets on acquisition of control, share-based payments, amortization and impairment write-downs as required. Actual results could differ from these estimates and differences could be material.

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 capitalized and subject to annual impairment assessment.

Exploration well costs are initially capitalized 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 capitalized if sufficient progress is being made to assess the reserves and economic viability of the well and or related project.

Capitalized 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 amortized 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, 2018 provided by McDaniel in February 2019.

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 early production stage and, as such, additional information must be obtained by further 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 capitalization.

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 recognized 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 realized or paid beyond twelve months of the balance sheet date, which is classified as non-current.

- Financial assets carried at amortized cost comprise of loans, 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 recognized at fair value and are subsequently measured at amortized cost using the effective interest method less any provision for impairment.

- Financial liabilities at amortized cost comprise of trade and other payables and are initially recognized at the fair value of the amount expected to be paid and are subsequently measured at amortized 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 characterized 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.

ShaMaran is leveraged though bond financing at the corporate level. However, the Company is not exposed to interest rate risks associated with the bonds as the interest rate is fixed until July 2023.

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 recognized 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 authorizations for expenditure on both operating and non-operating projects to further manage capital expenditures.

RISK 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 .

The Company plans to publish on November 5, 2019, its financial statements for the three and nine months ended September 30, 2019.

OTHER SUPPLEMENTARY INFORMATION

Abbreviations

CAD	Canadian dollar
CHF	Swiss Franc
EUR	Euro
USD	US dollar

Oil related terms and measurements

bbl	Barrel (1 barrel = 159 litres)
boe[1]	Barrels of oil equivalents
boepd	Barrels of oil equivalents per day
bopd	Barrels of oil per day
Mbbl	Thousand barrels
MMbbl	Million barrels
Mboe	Thousand barrels of oil equivalents
Mboepd	Thousand barrels of oil equivalents per day
Mbopd	Thousand barrels of oil per day
MMboe	Million barrels of oil equivalents

Interim Condensed Consolidated Statement of Comprehensive Income (unaudited)

For the three and six months ended June 30, 2019

Expressed in thousands of United States dollars	Note	Three months ended June 30, 2019	Three months ended June 30, 2018	Six months ended June 30, 2019	Six months ended June 30, 2018
Revenues	6	**15,071**	**15,328**	**27,142**	**41,829**
Cost of goods sold:					
Lifting costs	7	(5,372)	(2,463)	(9,598)	(4,889)
Other costs of production	7	(767)	119	(1,447)	(83)
Depletion	7	(6,094)	(4,646)	(11,495)	(14,186)
Gross margin on oil sales		**2,838**	**8,338**	**4,602**	**22,671**
Depreciation and amortization expense		(3)	(2)	(5)	(6)
Share based payments expense	19	(400)	-	(400)	-
General and administrative expense		(1,996)	(941)	(3,576)	(1,866)
Income from operating activities		**439**	**7,395**	**621**	**20,799**
Finance income	8	235	444	641	827
Finance cost	9	(5,449)	(3,016)	(14,514)	(7,186)
Net finance cost		**(5,214)**	**(2,572)**	**(13,873)**	**(6,359)**
Bargain purchase gain	5	9,500	-	9,500	-
Acquisition related costs	5	(8,750)	-	(8,750)	-
Net gain on Atrush acquisition		**750**	**-**	**750**	**-**
(Loss) / income before income tax expense		**(4,025)**	**4,823**	**(12,502)**	**14,440**
Income tax expense	10	(43)	(11)	(61)	(27)
(Loss) / Income for the period		**(4,068)**	**4,812**	**(12,563)**	**14,413**
Other comprehensive income					
Items that may be reclassified to profit or loss:					
Currency translation differences		8	(2)	5	16
Re-measurements on defined pension plan		(189)	197	(189)	197
Total other comprehensive (loss)/income		**(181)**	**195**	**(184)**	**213**
Total comprehensive (loss) / income for the period		**(4,249)**	**5,007**	**(12,747)**	**14,626**
(Loss) / Income in dollars per share:					
Basic and diluted		-	-	(0.01)	0.01

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

Interim Condensed Consolidated Balance Sheet (unaudited)

As at June 30, 2019 and December 31, 2018

Expressed in thousands of United States dollars	Note	June 30, 2019	December 31, 2018
ASSETS			
Non-current assets			
Property, plant and equipment	*11*	206,258	195,908
Intangible assets	*12*	67,619	67,829
Loans and receivables	*13*	24,980	25,184
		298,857	**288,921**
Current assets			
Loans and receivables	*13*	46,312	36,099
Cash and cash equivalents, unrestricted		19,535	24,586
Other current assets	*14*	284	2,286
Cash and cash equivalents, restricted	*16*	50	67,884
		66,181	**130,855**
TOTAL ASSETS		**365,038**	**419,776**
LIABILITIES			
Non-current liabilities			
Borrowings	*16*	189,480	236,717
Provisions	*17*	14,475	9,559
Pension liability		1,547	1,330
Other long-term liabilities	19	219	-
		205,721	**247,606**
Current liabilities			
Accrued interest expense on bonds	*16*	11,083	14,080
Accounts payable and accrued expenses	*15*	6,427	3,875
Current tax liabilities		24	16
		17,534	**17,971**
EQUITY			
Share capital	*18*	637,688	637,538
Share based payments reserve		6,676	6,495
Cumulative translation adjustment		(7)	(12)
Accumulated deficit		(502,574)	(489,822)
		141,783	**154,199**
TOTAL EQUITY AND LIABILITIES		**365,038**	**419,776**

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

Signed on behalf of the Board of Directors

/s/Terry Allen
Terry L. Allen, Director

/s/Keith Hill
Keith C. Hill, Director

Interim Condensed Consolidated Statement of Cash Flow (unaudited)

For the three and six months ended June 30, 2019 and 2018

		Three months ended June 30,		Six months ended June 30,	
Expressed in thousands of United States dollars	Note	**2019**	**2018**	**2019**	**2018**
Operating activities					
(Loss) / income for the period		**(4,068)**	**4,812**	**(12,563)**	**14,413**
Adjustments for:					
Depreciation, depletion and amortization expense		6,097	4,648	11,500	14,192
Borrowing costs – net of amount capitalized		5,448	3,025	14,505	7,181
Share based payment expense		400	-	400	-
Foreign exchange (gain)/loss	*8,9*	2	(60)	(3)	10
Unwinding discount on decommissioning provision		(1)	(11)	9	(6)
Re-measurements on defined pension plan		(189)	197	(189)	197
Interest income	*8*	(235)	(384)	(638)	(827)
Bargain purchase gain	*5*	(9,500)	-	(9,500)	-
Changes in other current assets		1,981	(1,979)	2,002	(2,067)
Changes in accounts payable and accrued expenses		1,496	636	2,552	(2,212)
Changes in pension liability		200	(187)	200	(186)
Changes in current tax liabilities		2	(5)	8	4
Changes in accounts receivables on Atrush oil sales		(7,044)	11,172	(4,584)	(1,372)
Net cash (outflows to) / inflows from operating activities		**(5,411)**	**21,864**	**3,699**	**29,327**
Investing activities					
Loans and receivables – payments received	*13*	6,648	8,510	11,298	9,050
Interest received on cash deposits	*8*	81	10	297	18
Purchases of intangible assets		1	(240)	210	(301)
Loans and receivables – payments issued		-	-	-	(394)
Purchase of property, plant and equipment		(1,212)	(3,551)	(5,032)	(5,000)
Purchase of additional interest in Atrush	*5*	(18,431)	-	(18,431)	-
Net cash inflows from / (outflows to) investing activities		**(12,913)**	**4,729**	**(11,658)**	**3,373**
Financing activities					
Payments to bondholders - interest	*16*	-	(10,719)	(14,950)	(10,719)
Bonds retired	*16*	-	-	(50,000)	-
Net cash outflows to financing activities		**-**	**(10,719)**	**(64,950)**	**(10,719)**
Effect of exchange rate changes on cash and cash equivalents		34	-	24	(13)
Change in cash and cash equivalents		**(18,290)**	**15,874**	**(72,885)**	**21,968**
Cash and cash equivalents, beginning of the period		37,875	11,350	92,470	5,256
Cash and cash equivalents, end of the period*		**19,585**	**27,224**	**19,585**	**27,224**
***Inclusive of restricted cash**		**50**	**25,613**	**50**	**25,613**

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

Interim Condensed Consolidated Statement of Changes in Equity (unaudited)

For the year 2018 and the six months ended June 30, 2019

Expressed in thousands of United States dollars	Share capital	Share based payments reserve	Cumulative translation adjustment	Accumulated deficit	Total
Balance at January 1, 2018	**637,538**	**6,495**	**(30)**	**(492,048)**	**151,955**
Total comprehensive income for the period:					
Income for the period	-	-	-	14,413	14,413
Other comprehensive income	-	-	16	197	213
	-	-	16	14,610	14,626
Balance at June 30, 2018	**637,538**	**6,495**	**(14)**	**(477,438)**	**166,581**
Balance at December 31, 2018	**637,538**	**6,495**	**(12)**	**(489,822)**	**154,199**
Total comprehensive (loss) / income for the period:					
Loss for the period	-	-	-	(12,563)	(12,563)
Other comprehensive gain / (loss)	-	-	5	(189)	(184)
Transactions with owners in their capacity as owners:					
Borrowing costs	150	-	-	-	150
Share based payments expense	-	181	-	-	181
	150	181	5	(12,752)	(12,416)
Balance at June 30, 2019	**637,688**	**6,676**	**(7)**	**(502,574)**	**141,783**

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 25th Floor, 666 Burrard Street, Vancouver, British Columbia V6C 2X8. 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 holds an interest in the Atrush Block production sharing contract (“Atrush PSC”) related to a petroleum property located in the Kurdistan Region of Iraq (“Kurdistan”). The Atrush Block is currently in the development period. 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 August 7, 2019, the date these interim consolidated financial statements were approved and authorized 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, 2018.

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 its assets and liabilities in the normal course of business as they come due in the foreseeable future.

c. Significant accounting policies

These condensed interim consolidated financial statements 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, 2018 except as noted below.

IFRS 16: Leases has replaced *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 is effective for annual periods beginning on or after January 1, 2019. The Company had no outstanding leases for the periods presented.

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 mainly disclosed in Note 4 of the Company's audited consolidated financial statements for the year ended December 31, 2018. In addition to these the following critical judgements and estimates have been made by management in the process of applying the Company's accounting policies in these condensed interim consolidated financial statements:

a. Fair value of assets acquired and liabilities assumed in the increase of participating interest

The fair value of assets acquired and liabilities assumed in the increase of participating interest is estimated based on information available at the date of acquisition. Various valuation techniques are applied for measuring fair value including market comparables and discounted cash flows which rely on assumptions such as forward commodity prices, reserves and resources estimates, production costs and discount rates. Changes in these variables could significantly impact the carrying value of the net assets. The Company already holds an interest in the Atrush block and has a reasonable basis for establishing the fair value of the assets and liabilities acquired in this transaction.

4. 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.

5. Increase of participating interest in the Atrush block

On May 30, 2019, ShaMaran completed its acquisition of an additional 7.5% participating interest in the Atrush block. Under two separate purchase and sale agreements, done in contemplation of one another, ("SPA"s) ShaMaran's wholly owned subsidiary, General Exploration Partners, Inc. ("GEP"), acquired directly Marathon Oil KDV B.V.'s ("MOKDV") full 15% participating interest in the Atrush Block and immediately thereafter sold a 7.5% Atrush participating interest to TAQA Atrush B.V. ("TAQA" and Operator of the Atrush Block), bringing the Company's total interest in Atrush up to 27.6%. The total consideration paid to complete the acquisition was $27.2 million, comprised of $17.4 million paid to Marathon, $1 million of PSC capacity building bonuses accounts payable paid to the Kurdistan Regional Government of Iraq ("KRG") on direct behalf of MOKDV and in conjunction with the payment to MODKV, and $8.8 million of net acquisition related costs. The $8.8 million of net acquisition related costs were comprised of $9.5 million of PSC capacity building bonuses paid to the KRG and $750 thousand of payments received from TAQA and were not considered part of the purchase price of the acquisition in line with IFRS3, and have been expensed as incurred within the Statement of Comprehensive Income. The fair value of the net identifiable assets and liabilities acquired exceeded the $18.4 million purchase price paid resulting in a bargain purchase gain.

Expressed in thousands of United States dollars

This acquisition has been accounted for as an Increase in the participating interest in a joint operation (following the guidance for a business combination in accordance with IFRS 3) and the purchase price has been allocated, on a preliminary basis, as follows:

Purchase price paid for 7.5% (total cash paid less net acquisition related costs)	18,431
Identifiable assets and liabilities acquired at fair value*:	
Property, plant and equipment	(11,549)
Atrush Exploration costs receivable	(12,550)
Accounts receivable on Atrush oil sales	(7,378)
Atrush Development Cost loan	(1,764)
Atrush Feeder Pipeline loan	(1,087)
Provision for decommissioning and site restoration**	4,003
Accounts payable and accrued liabilities	2,393
Bargain purchase gain	9,500
Acquisition related costs – net	(8,750)
Net gain on Atrush acquisition	**750**

The amounts disclosed above were determined provisionally pending the finalization of the valuation for those assets and liabilities. Up to twelve months from the effective date of the acquisition, further adjustments may be made to the fair values assigned to the identifiable assets acquired and liabilities assumed, as well as to the fair value of the consideration transferred.

*IFRS 3 requires to fair value all assets and liabilities acquired. This included the fair market value of the property, plant and equipment acquired, which the company has approximated with reference to the $18.4m price paid in the acquisition and other market indicators of the value of the property. All other fair values 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.

**The fair value of the provision for decommissioning and site restoration at the acquisition date was based on the estimated future cash flows to retire the acquired portion of the oil and gas property at the end of its useful life. The discount rate used to determine the net present value of the provision was a rate of 1.71 percent (the Bank of Canada's long-term bond yield rate).

Refer also to Notes 6,7,11,12,14,17

6. Revenues

Revenues relate entirely to the Company's entitlement share of oil from Atrush sold to the KRG during the year to date. 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 oil volumes from Atrush in the first six months of 2019 were 4.9MMbbls (2018: 3.6MMbbls) and the Company's entitlement share was approximately 0.5MMbbls (2018: 0.8MMbbls) which were sold with an average netback price of $50.57 per barrel (2018: $53.72). Export prices are based on Dated Brent oil price with a discount for estimated oil quality adjustments and all local and international transportation costs. ShaMaran's oil entitlement share is based on export prices and on PSC terms covering allocation of profit oil, cost oil and capacity building bonuses owed to the KRG. The Company's entitlement share was significantly higher in the six-month comparative period of the prior year mainly due to a sharing arrangement with TAQA, which provided the Company with a priority share of the initial exploration cost oil.

Refer also to Notes 5 and 13.

Expressed in thousands of United States dollars

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, insurance, and the operator's related support costs. Other costs of production include the Company's share of production bonuses paid to the KRG, heavy oil extended well test operating costs 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 5.

8. Finance income

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Interest on Atrush Development Cost Loan	92	227	205	495
Interest on deposits	81	10	297	18
Interest on Atrush Feeder Pipeline Cost Loan	62	147	136	314
Total interest income	**235**	**384**	**638**	**827**
Foreign exchange gain	-	60	3	-
Total finance income	**235**	**444**	**641**	**827**

Refer to Note 13.

9. Finance cost

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Interest charges on bonds at coupon rate	5,636	5,359	11,953	10,719
Amortization of bond transaction costs	32	210	782	420
Re-measurement of bond debt	-	-	2,131	-
Total borrowing costs	**5,668**	**5,569**	**14,866**	**11,139**
Foreign exchange loss	2	-	-	10
Unwinding discount on decommissioning provision	(1)	(11)	9	(6)
Total finance costs before borrowing costs capitalized	**5,669**	**5,558**	**14,875**	**11,143**
Borrowing costs capitalized	(220)	(2,542)	(361)	(3,957)
Finance cost	**5,449**	**3,016**	**14,514**	**7,186**

Amendments to the ShaMaran Bonds agreement in February 2019, including the repayment of $50 million of ShaMaran Bonds, changed future cashflows which resulted in the re-measurement of the carrying value of the remaining debt in line with IFRS 9 Financial Instruments. The value of the ShaMaran Bonds has been determined based on the net present value of future cash flows, which no longer includes original transaction costs incurred in 2018, discounted at the original effective interest rate resulting in a loss of $2.1 million in the first quarter of 2019.

Amortisation of bond transaction costs in the six months ended June 30, 2019, includes a loss of $671 thousand related to the partial settlement of debt in the period.

Expressed in thousands of United States dollars

Borrowing costs directly attributable to the acquisition and preparation of Atrush development assets for their intended use 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. A significant number of development projects have been completed for their intended use, therefore the capitalisation of the related borrowing costs has ceased leading to less borrowing costs being capitalised.

Refer also to Notes 16 and 18.

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 property, plant and equipment ("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. During the first six months of 2019 movements in PP&E were comprised of additions of $21.8 million (year 2018: $17.4 million), which included the $11.5 million acquired from MOKDV measured at fair value and capitalized borrowing costs of $0.4 million (year 2018: $5.0 million) net of depletion and depreciation of $11.5 million (year 2018: $28.2 million) which resulted in a net increase to PP&E assets of $10.4 million.

Refer also to Note 5.

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 first six months of 2019 movements in intangible assets were comprised of a net credit for insurance costs of $210 thousand (year 2018: $509 thousand cost for additions), which included borrowing costs of nil (year 2018: reversal of $123 thousand).

13. Loans and receivables

	At June 30, 2019	At December 31, 2018
Atrush Exploration Costs receivable	45,868	34,898
Accounts receivable on Atrush oil sales	19,115	14,531
Atrush Development Cost Loan	3,710	7,136
Atrush Feeder Pipeline Cost Loan	2,599	4,718
Total loans and receivables	**71,292**	**61,283**
Current portion	46,312	36,099
Non-current portion	24,980	25,184

Refer also to Notes 5, 6 and 8.

Expressed in thousands of United States dollars

14. Other current assets

	At June 30, 2019	At December 31, 2018
Prepaid expenses	211	176
Other receivables	73	110
Deposit on purchase of additional Atrush interest	-	2,000
Total other current assets	**284**	**2,286**

Refer also to Note 5.

15. Accounts payable and accrued expenses

	At June 30, 2019	At December 31,2018
Payables to joint operations partner	5,720	2,734
Trade payables	486	282
Accrued expenses	221	859
Total accounts payable and accrued expenses	**6,427**	**3,875**

Refer also to Note 5.

16. Borrowings

On July 5, 2018 the Company issued $240 million of senior unsecured bonds ("the ShaMaran bonds"). The ShaMaran bonds have a five-year maturity without amortization and carry 12% fixed semi-annual coupon. On January 5, 2019 the Company issued the first semi-annual interest payment to ShaMaran bondholders in the amount of $14.4 million. On February 1, 2019, bondholders approved of certain amendments to the ShaMaran Bonds agreement including the repayment of $50 million of ShaMaran Bonds plus accrued interest and the release to the Company of $14.4 million of Company cash pledged to the bondholders as security for the Company's obligations under the ShaMaran bonds to be used to fund the Acquisition and for general corporate purposes. On February 8, 2019 the Company repaid $50 million of ShaMaran Bonds and $550 thousand of related accrued interest. At June 30, 2019, there were $190 million of ShaMaran Bonds outstanding.

Nemesia S.à.r.l. ("Nemesia"), a company controlled by a trust settled by the estate of the late Adolf H. Lundin, agreed to guarantee the Company's obligations under the ShaMaran Bonds agreement (the "Liquidity Guarantee"). In exchange for providing the Liquidity Guarantee the Company issued Nemesia 2,000,000 common shares of ShaMaran on January 23, 2019. The fair value of the shares issued of $150 thousand has been accounted for as bond transaction costs and is being amortised over the term of the bonds.

Expressed in thousands of United States dollars

The movements in borrowings are explained as follows:

	6 months ended June 30, 2019	12 months ended December 31, 2018
Opening balance	**250,797**	**188,491**
Interest charges at coupon rate	11,953	25,428
Re-measurement of bond debt	2,131	-
Amortization of bond transaction costs	782	1,087
Bond issued – net of transaction costs	-	236,361
Call premiums on early retirement of bonds	-	1,427
Bond transaction costs	(150)	-
Payments to Bondholders – interest and call premiums	(14,950)	(15,575)
Bonds retired	(50,000)	(186,422)
Ending balance	**200,563**	**250,797**
Current portion: accrued bond interest expense	11,083	14,080
Non-current portion: borrowings	189,480	236,717

The release of the $50 million from the Marathon Pledged Account plus the release on March 8, 2019 from the DSRA of $14.4 million resulted in a net decrease in restricted cash of $67.8 million in the period ending June 30, 2019.

The remaining contractual obligations under the amended ShaMaran Bonds, which are comprised of the repayment of principal and interest expense based on undiscounted cash flows at payment date and are based on the current $190 million of bonds outstanding thereafter until, in accordance with the amended bond terms, a further reduction in ShaMaran Bonds outstanding to $175 million is completed in July 2020, are as follows:

Less than one year	22,800
From one to two years	36,900
From three to five years	227,500
Total	**287,200**

Refer also to Notes 9 and 18.

17. Provisions

The provision relates to the Company's share of future decommissioning and site restoration costs in respect of the Company's 27.6% interest in the Atrush Block and assumes these works will commence in the year 2032.

Refer to Note 5.

Expressed in thousands of United States dollars

18. 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, 2018	**2,158,631,534**	**637,538**
At December 31, 2018	**2,158,631,534**	**637,538**
Shares issued as borrowing cost	2,000,000	150
At June 30, 2019	**2,160,631,534**	**637,688**

On January 23, 2019, the Company issued to Nemesia 2,000,000 common shares of ShaMaran in accordance with the terms of the Liquidity Guarantee.

Refer also to Notes 9 and 16.

19. Share based payments expense

The Company granted a total of 3,600,625 of deferred share units ("DSU") to non-employee directors on the May 30, 2019. The fair value of the DSU's are fully expensed in the period granted, based on the grant date share price of CAD 0.075, which resulted in a charge to the Income Statement of $200 thousand. At each quarter end the carrying value of the DSU liability is revalued based on the change in the share price, any gains or losses are charged to the Income Statement. At the end of the quarter this resulted in an additional charge of $19 thousand based on a share price of CAD 0.08 at June 30,2019. The remaining $181 thousand of share-based expenses charged to the Income Statement relates to the vested portion of the May 15, 2019 grant of 10,000,000 share options to ShaMaran's newly appointed Chief Executive Officer, Dr. Adel Chaouch. The options had a strike price of CAD 0.08 and will be fully vested over a period of two years.

The carrying amount of the DSU liability at June 30, 2019, is $219 thousand USD. The DSUs may not be redeemed until a minimum period of three months has passed following the end of service as a director of the Company and will be settled in cash.

Expressed in thousands of United States dollars

20. Financial instruments

Financial assets

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

	Carrying and fair values [1]	
	At June 30, 2019	**At December 31, 2018**
Loans and receivables [2]	25,424	26,385
Cash and cash equivalents, unrestricted [2]	19,535	24,586
Other receivables [2]	73	110
Cash and cash equivalents, restricted [2]	50	67,884
Total financial assets	**45,082**	**118,965**

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 June 30, 2019	**At December 31, 2018**
Borrowings [3]	Level 2	189,480	236,717
Accrued interest on bonds		11,083	14,080
Accounts payable and accrued expenses [2]		6,427	3,875
Current tax liabilities		24	16
Total financial liabilities		**207,014**	**254,688**

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 $190 million (December 31, 2018: $240 million). The fair value has been determined based on quoted market prices of similar bonds held by similar companies within the industry.

[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

21. Commitments and contingencies

As at June 30, 2019 the outstanding commitments of the Company were as follows:

	For the year ended June 30,				
	2020	2021	2022	Thereafter	Total
Atrush Block development and PSC	37,716	120	120	1,328	39,284
Office and other	138	123	113	-	374
Total commitments	37,854	243	233	1,328	39,658

Amounts relating to Atrush Block development represent the Company's unfunded paying interest share of the approved 2019 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: $13.3 million at 25 million barrels (ShaMaran share: $3.67 million); and $23.3 million at 50 million barrels (ShaMaran share: $6.43 million).

22. Related party transactions

Transactions with corporate entities

	Purchase of services for periods ended June 30,				Amounts owing at the balance sheet dates	
	three months		six months			
	2019	2018	2019	2018	June 30, 2019	December 31, 2018
Namdo Management Services Ltd.	13	13	25	26	-	-
Lundin Petroleum AB	-	52	-	104	-	-
Bennett-Jones	-	5	-	11	-	-
Total	**13**	**70**	**25**	**141**	**-**	**-**

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.

The Company received services from various subsidiary companies of Lundin Petroleum AB ("Lundin"), a shareholder of the Company until June 21, 2018 when Lundin sold its ShaMaran shares. Lundin is not considered a related party in 2019.

Bennett-Jones is a law firm in which an officer of the Company was a partner and has provided legal services to the Company. The officer retired from Bennett-Jones at the end of 2018 therefore Bennett-Jones is not considered a related party in 2019.

Nemesia is a new related party in 2019 after the Company issued Nemesia 2,000,000 common shares of ShaMaran on January 23, 2019, in exchange for providing the Liquidity Guarantee.

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

Refer also to Note 16.

DIRECTORS

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Director, President and Chief Executive Officer
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Director, Chairman
Geneva, Switzerland

Keith C.Hill
Director
Florida, USA

Terry L. Allen
Director
Calgary, Canada

Michael Ebsary
Director
Geneva, Switzerland

Will Lundin
Director
Vancouver,
Calgary, Canada

OFFICERS

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Geneva, Switzerland

Brenden Johnstone
Chief Financial Officer and Corporate Secretary
British Columbia, Canada

Kathy Love
Assistant Corporate Secretary
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CORPORATE DEVELOPMENT

Sophia Shane
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Geneva, Switzerland

TRANSFER AGENT

Computershare Trust Company of Canada
Vancouver, Canada

STOCK EXCHANGE LISTINGS

TSX Venture Exchange and NASDAQ First North
Exchange
Trading Symbol: SNM

ShaMaran Petroleum Corp.