# General Exploration Partners, Inc.

**Interim Management Report**
**For the six months ended June 30, 2017**

## GENERAL EXPLORATION PARTNERS, INC.

**Condensed Interim Statement of Changes in Equity (unaudited)**

*(Expressed in thousands of United States dollars)*

| | Note | Share capital | Paid in capital | Accumulated Deficit | Total |
|---|---|---|---|---|---|
| **Balance at January 1, 2016** | | **3** | **111,195** | **(66,656)** | **44,542** |
| Total comprehensive loss for the period | | - | - | (4,296) | **(4,296)** |
| Transactions with owners in their capacity as owners: | | | | | |
| Capital contributions | 16 | - | 41,061 | - | **41,061** |
| | | - | 41,061 | - | **41,061** |
| **Balance at June 30, 2016** | | **3** | **152,256** | **(70,952)** | **81,307** |
| **Balance at December 31, 2016** | | **3** | **151,496** | **(74,325)** | **77,174** |
| Total comprehensive loss for the period | | - | - | (3,462) | **(3,462)** |
| Transactions with owners in their capacity as owners: | | | | | |
| Capital contributions | 16 | - | 14,273 | - | **14,273** |
| | | - | 14,273 | - | **14,273** |
| **Balance at June 30, 2017** | | **3** | **165,769** | **(77,787)** | **87,985** |

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

**GENERAL EXPLORATION PARTNERS, INC.**
**Condensed Interim Statement of Cash Flows (unaudited)**
*(Expressed in thousands of United States dollars)*

| | Note | For the six months ended June 30, 2017 | 2016 |
|---|---|---|---|
| **Operating activities** | | | |
| Loss for the period | | (3,462) | (4,296) |
| Adjustments for: | | | |
| Bond interest expenses, net | | 2,944 | 2,728 |
| Unwinding discount on decommissioning provision | | (7) | 43 |
| Interest income | 6 | (705) | (10) |
| Advances from related parties | 19 | 1,178 | 1,408 |
| Other current assets | | 46 | 43 |
| Accounts payable and accrued expenses | | (474) | (662) |
| **Net cash outflows to operating activities** | | **(480)** | **(746)** |
| **Investing activities** | | | |
| Interest received on cash deposits | 6 | - | 10 |
| Purchases of intangible assets | | (35) | 2 |
| Purchases of property, plant and equipment | | (6,311) | (16,545) |
| Loans and receivables – advances to joint venture partner | | (7,477) | - |
| **Net cash outflows to investing activities** | | **(13,823)** | **(16,533)** |
| **Financing activities** | | | |
| Capital contributions from ShaMaran | | 14,273 | 23,061 |
| Proceeds on bond issue | | - | 17,000 |
| Bond transaction costs | | - | (780) |
| **Net cash inflows from financing activities** | | **14,273** | **39,281** |
| **Change in cash and cash equivalents** | | **(30)** | **22,002** |
| Cash and cash equivalents, beginning of the period | | 40 | 1,526 |
| **Cash and cash equivalents, end of the period*** | | **10** | **23,528** |
| ***Inclusive of restricted cash** | | **-** | **16,407** |

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

## 1. General information

General Exploration Partners, Inc. ("GEP" and "Company") is an exempted company existing under the laws of the Cayman Islands with registration number 198520. The address of the registered office is 190 Elgin Avenue, George Town, Grand Cayman, KY1-9005, Cayman Islands. The Company has outstanding $157.2 million of senior secured bonds ("Senior Bonds") which are listed on the Oslo Børs in Norway under the symbol "GEP01" and an additional $19.1 million of super senior secured bonds ("Super Senior Bonds"). Refer also to Note 13.

The Company is engaged in the business of oil and gas exploration and development and is currently in the first phase of the development program in respect of the Atrush Block production sharing contract ("Atrush PSC") related to a petroleum property located in the Kurdistan Region of Iraq ("Kurdistan").

The immediate parent entity of the Company is ShaMaran Ventures B.V., a company incorporated in the Netherlands, and the ultimate parent entity is ShaMaran Petroleum Corp. ("ShaMaran"), a company incorporated in British Columbia, Canada, and listed on the TSX Venture Exchange (Canada) and NASDAQ First North Exchange (Sweden) under the symbol "SNM". Additional information relating to ShaMaran is available on SEDAR at **www.sedar.com** and on its web-site at **www.shamaranpetroleum.com**.

## 2. Basis of preparation and going concern

### a. Basis of preparation

These unaudited condensed interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting, under International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and have been prepared following the same accounting policies and methods of application as those in the Company's audited annual financial statements for the year ended December 31, 2016. The policies applied in these interim consolidated financial statements are based on IFRS which were outstanding and effective as of August 15, 2017, the date these interim financial statements were approved and authorised for issuance by the Company's board of directors ("the Board").

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

### b. Going concern

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

At June 30, 2017 ShaMaran held cash and cash equivalents of $14.8 million. While cash inflows from oil sales will commence with Atrush production management forecasts that combined cash flows from oil sales, spending on Atrush development, Atrush Feeder Pipeline costs and technical and administrative costs in support of Atrush operations will result in net cash inflows of $6 million for the 12 months ended June 30, 2018. The oil sales volume assumptions reflect production commencing in July 2017 and reaching a rate of 27,000 barrels of oil per day in 2017 which reflects the planned capacity of the Atrush production facility at 90% uptime and that all crude oil produced from Atrush will be delivered, sold and paid for in accordance with the terms of the Atrush PSC three months following the month of production. The forecasted revenue cash flows are based on Brent forward contract prices as of the balance sheet date and discount for transportation costs and quality differentials consistent with observed practice in Kurdistan since mid-2015. The timing and extent of Atrush development costs is based on the Operator’s latest forecasts for the Atrush work program while the technical and administrative support costs are management’s latest estimates for these forthcoming requirements.

In case there are delays in the forecasted receipt of cash from the sale of oil production or in the magnitude of those cash receipts, which are under the control of the Kurdistan Regional Government (“KRG”), and the Company was unable to defer certain planned cost activities, the Company could, by the fourth quarter of 2017, require additional liquidity in order to fund the forecasted Atrush development program thereafter. Failure to meet development commitments could put the Atrush PSC and the Company’s bond agreements at risk of forfeiture.

Management continues to monitor its financing requirements and consider appropriate financing alternatives which include a facility under the Company’s existing bond agreements allowing for the Company to propose the issuance of up to an additional $33 million of bonds under the same bond terms. Management estimates this financing source could be administered within two months. However, in the event that an offering of additional bonds cannot be completed, or that the Company could not secure external financing in an amount required to meet its obligations as they come due, the Company may be required to take measures such as divestment of assets and or further renegotiation of its debt. Should this not be successful, there is a risk that the Company would be subject to a partial or complete reorganization, or that the Company is declared bankrupt. The potential that the Company’s financial resources are insufficient to fund its appraisal, development and production activities for the next 12 months, particularly in case there are unforeseen delays in receipt of funds from oil sales, indicates a material uncertainty which may cast significant doubt over the Company’s ability to continue as a going concern. These condensed interim consolidated financial statements do not include the adjustments that would result if the Company is unable to continue as a going concern.

Refer also to Notes 13, 18 and 20.

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

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

## 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.

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

## 5. General and administrative expense

| | For the six months ended June 30, 2017 | 2016 |
|---|---:|---:|
| Service charges from ShaMaran group company | 1,179 | 1,408 |
| Audit, legal and other professional fees | 24 | 102 |
| Filing and listing expenses, Oslo Børs | 24 | 26 |
| Office charges | 1 | 1 |
| Bank charges | 1 | (2) |
| **Total general and administrative expense** | **1,229** | **1,535** |

## 6. Finance income

| | For the six months ended June 30, 2017 | 2016 |
|---|---:|---:|
| Interest on Atrush Development Cost Loan | 484 | - |
| Interest on Atrush Feeder Pipeline Cost Loan | 221 | - |
| Interest on deposits | - | 10 |
| **Total finance income** | **705** | **10** |

## 7. Finance cost

| | For the six months ended June 30, 2017 | 2016 |
|---|---:|---:|
| Interest charges on bonds at coupon rate | 9,729 | 8,753 |
| Amortisation of bond related transaction costs | 420 | 524 |
| Interest expense on borrowings | 10,149 | 9,277 |
| Foreign exchange loss | 1 | - |
| Unwinding discount on decommissioning provision | (7) | 43 |
| Total finance costs before borrowing costs capitalised | 10,143 | 9,320 |
| Borrowing costs capitalised as E&E and PP&E assets | (7,205) | (6,549) |
| **Total finance cost** | **2,938** | **2,771** |

## 8. Taxation

The Company has reported in the current period income tax expense of $nil (2016: $nil) as there is no direct tax imposed on Cayman Island companies.

## 9. Property, plant and equipment ("PP&E")

The net book value of PP&E at June 30, 2017 is comprised of development costs related to the Company's share of Atrush PSC proved and probable reserves as estimated by McDaniel. These costs are not subject to depletion until commencement of commercial production. The additions to PP&E during the first six months of 2017 included borrowing costs totalling $7.1 million (year 2016: $13.1 million).

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

## 10. Intangible assets ("E&E")

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

## 11. Loans and receivables

| | At June 30, 2017 | At December 31, 2016 |
|---|---|---|
| Atrush Exploration Costs receivable | 37,475 | 37,475 |
| Atrush Development Cost Loan | 15,418 | 12,857 |
| Atrush Feeder Pipeline Cost Loan | 8,655 | 3,034 |
| **Total loans and receivables** | **61,548** | **53,366** |
| - Current portion | 13,498 | 7,252 |
| - Non-current portion | 48,050 | 46,114 |

## 12. Accounts payable and accrued expenses

| | At June 30, 2017 | At December 31, 2016 |
|---|---|---|
| Payables to joint operations partner | 5,651 | 6,146 |
| Accrued expenses | 83 | 49 |
| Trade payables | 2 | 15 |
| **Total accounts payable and accrued expenses** | **5,736** | **6,210** |

## 13. Borrowings

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

Movements in borrowings are explained as follows:

| | For the six months ended June 30, 2017 | For the year ended December 31, 2016 |
|---|---|---|
| **Opening balance** | **167,632** | **150,515** |
| Interest charges at coupon rate | 9,729 | 17,951 |
| Bonds issued as interest payments | 9,585 | 17,700 |
| Amortisation of bond transaction costs | 420 | 943 |
| Super Senior Bonds issued – net of transaction costs | - | 16,223 |
| Senior Bonds exchanged for ShaMaran common shares | - | (18,000) |
| Interest payments to bondholders | (9,585) | (17,700) |
| **Ending balance** | **177,781** | **167,632** |
| - Current portion: accrued bond interest expense | 2,647 | 2,503 |
| - Non-current portion: borrowings | 175,134 | 165,129 |

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

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

| | At June 30, 2017 | At December 31, 2016 |
|---|---|---|
| Less than one year | 20,856 | 19,722 |
| Between one and two years | 187,004 | 188,138 |
| **Total** | **207,860** | **207,860** |

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

## 14. Provisions

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

## 15. Share capital

The Company is authorised to issue 50,000 common shares with a par value of $1. The Company's issued share capital is as follows:

| | Number of shares | Share capital |
|---|---|---|
| **At December 31, 2016** | **3,350** | **3** |
| **At June 30, 2017** | **3,350** | **3** |

## 16. Paid in capital

Paid in capital at June 30, 2017 of $165.8 million (December 31, 2016: $151.5 million) represents cumulative contributions of capital from the Company's shareholders net of cumulative capital distributions to the Company's shareholder. In the six months ended June 30, 2017 the Company received capital contributions of $14.3 million (year 2016: $41.2 million). In the six months ended June 30, 2017 the Company distributed $nil (year 2016: $0.9 million) of dividends to fund technical, management and administrative services of ShaMaran's subsidiary companies.

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

## 17. Financial instruments

### *Financial assets*

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

| | Fair value hierarchy [3] | Carrying and fair values [1] At June 30, 2017 | At December 31, 2016 |
|---|---|---|---|
| Loans and receivables [2] | | 61,548 | 53,366 |
| Other receivables [2] | | 18 | 64 |
| Cash and cash equivalents [2] | | 10 | 40 |
| **Total financial assets** | | **61,576** | **53,470** |

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, 2017 | At December 31, 2016 |
|---|---|---|---|
| Borrowings [3] | Level 2 | 175,134 | 165,129 |
| Advances from related parties [2] | | 13,069 | 11,891 |
| Accounts payable and accrued expenses [2] | | 5,736 | 6,210 |
| Accrued interest on bonds | | 2,647 | 2,503 |
| **Total financial liabilities** | | **196,586** | **185,733** |

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 $103.4 million (December 31, 2016: $63.1 million). The fair value was determined by reference to the bond agreement terms and the weighted average of available annual published price quotations on the Oslo Børs.

[4] *Fair value measurements*

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

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

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

## 18. Commitments

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

| | For the year ended June 30, | | | | |
|---|---|---|---|---|---|
| | **2018** | **2019** | **2020** | **Thereafter** | **Total** |
| Atrush Block development and PSC | 26,182 | 120 | 120 | 1,570 | 27,992 |
| **Total commitments** | **26,182** | **120** | **120** | **1,570** | **27,992** |

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

## 19. Related party transactions

***Transactions with corporate entities***

| | Purchases of services for the six month period ended June 30, | | Amounts owing as at the balance sheet dates, | |
|---|---|---|---|---|
| | **2017** | **2016** | **30 June 2017** | **31 Dec 2016** |
| ShaMaran Petroleum B.V. | 1,178 | 1,408 | 13,069 | 11,891 |
| **Total** | **1,178** | **1,408** | **13,069** | **11,891** |

ShaMaran Petroleum B.V., a wholly owned subsidiary of ShaMaran, provides technical and administrative services to GEP in support of the Company's interest in the Atrush Block PSC.

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.

## 20. Events after the reporting period

Oil production on the Atrush Block commenced on July 3, 2017.