ShaMaran petroleum corp

Q3

ShaMaran petroleum corp

Financial Report

For the three and nine months ended September 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 nine months ended September 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 November 5, 2019. The MD&A should be read in conjunction with the unaudited condensed interim consolidated financial statements for the three and nine months ended September 30, 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 Growth Market (Sweden) 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 50,000 barrels of oil per day ("bopd"). Thirteen wells have been drilled to date and nine 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 to 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 2.0 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.

THIRD QUARTER 2019 HIGHLIGHTS AND SIGNIFICANT SUBSEQUENT EVENTS

Atrush Block delivered significant production growth ahead of schedule that will increase future cash flow. Atrush reached a production milestone, met its 2019 exit-rate production target and commissioned a new production facility. The Company now has greater exposure to cash flow and future growth after increasing its working interest in Atrush to 27.6% and consolidating ownership from four to three partners, as of May 2019. The company believes Atrush provides a strong and stable foundation to fund organic growth and act on potential new accretive opportunities as they present themselves.

Operations

Achieved significant production milestone.

- During July 2019, the Atrush monthly production exceeded one million barrels of oil for the first time since oil production commenced. As of October 19, 2019, over 20 million barrels of oil have been exported from the Atrush field.

Reached exit-rate production ahead of schedule.

- Current production rate is over 45,000 bopd, meeting exit-rate target of 45,000 bopd to 50,000 bopd two months ahead of schedule.

Annual average production delivered as planned.

- Atrush's production guidance for 2019 is 30,000 to 35,000 bopd. Average production for Q3 2019 was 33,167 bopd. Subsequent to third quarter, October 2019 average production was 38,040 bopd.
- Average daily oil production has increased year over year. Compared to year previous, average daily oil production increased 53% for the quarter (33,167 bopd vs. 21,675 bopd) and 44% for the nine months ended September 30 (29,274 bopd vs. 20,344 bopd).

Increased well capacity through to remainder of year.

- Atrush well capacity has been increased by 21,000 bopd during 2019, of which 10,500 bopd came online in Q3 through the completion of the Chiya Khere-12 ("CK-12") and Chiya Khere-13 ("CK-13") wells.

Increased processing capacity in lockstep with production growth.

- Atrush processing capacity has been increased by 20,000 bopd to 50,000 bopd, meeting guidance. An Early Production Facility ("EPF") at the Chamanke-E drilling was commissioned on schedule in Q3, accounting for 10,000 bopd of the new processing capacity.

Financial

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

- The Company received $19.1 million in Q3.2019 for its entitlement share of Atrush PSC profit oil and cost oil for April through to June 2019 oil sales.
- The Company received $2.8 million in Q3.2019 of Atrush Exploration Costs receivable[1] on April through to June 2019 oil sales.
- The Company received $5.4 million in Q3.2019 in payments of principal plus interest on the Atrush Development Cost Loan and the Atrush Feeder Pipeline Cost loans for invoices from July to September 2019. Subsequent to the balance sheet date the remaining amounts have been collected and both loans have now been fully repaid.

Corporate

The Company reached out to shareholders and investors.

- Dr. Adel Chaouch, President and Chief Executive Officer of ShaMaran, presented to shareholders and investors at a town hall meeting in Stockholm on Monday September 9, 2019, and presented at the Pareto Securities Oil and Offshore conference in Oslo on Wednesday September 11, 2019.

[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

OPERATIONS REVIEW

Production

	Three months ended Sept 30		Nine months ended Sept 30	
	2019	2018	**2019**	2018
Atrush average daily oil production – gross 100% field (Mbopd)	33.2	21.7	29.3	20.4
ShaMaran working interest in Atrush average daily oil production (Mbopd)	9.2	4.4	6.9	4.1
Atrush oil sales – gross 100% field (Mbbl)	3,051	1,998	7,992	5,559
ShaMaran entitlement of Atrush oil sales (Mbbl)	405	223	942	1,000

Atrush continues to grow incrementally as planned with production in Q3 2019 53% higher than year previous due to:

- Resolution of processing constraints associated with salt production.
- Additional production from new wells Chiya Khere-6 ("CK-6"), Chiya Khere-7 ("CK-7"), Chiya Khere-10 ("CK-10"), Chiya Khere-11 ("CK-11"), CK-12, and CK-13.
- Installation and operations of a temporary Heavy Oil Extended Well Testing ("HOEWT") facility at the Chamanke-C drilling location.
- Debottlenecking of the Atrush Permanent Facilities ("PF-1").

Production entitlement has not increased for the nine months 2019 compared to year previous. 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 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 Completions

The CK-11 production well at the Chamanke-G drilling location was completed using a workover rig and came online for production on May 10, 2019. The well was constrained to a maximum rate of 6,200 bopd by the installed pump. Due to the observed high productivity, a larger pump was installed in September 2019 and CK-11 is currently producing at rates over 8,000 bopd.

The CK-12 well at the Chamanke-E drilling location was drilled to a total depth of 2,400 metres ("m") by May 19, 2019, 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 and the well was brought online on August 10, 2019. CK-12 is currently producing at a rate of 2,000 bopd from the Mus Formation.

The CK-13 well at the Chamanke-E drilling location was drilled to total depth of 2,340m by August 19, 2019, encountering the reservoir section 23m shallower than expected. The well was completed with the drilling rig and came online on September 18, 2019, currently producing at 6,000 bopd.

The CK-15 well at the Chamanke-G drilling location was spudded on October 5, 2019 and is targeted to come online in December 2019.

Facilities

An EPF was installed and commissioned at the Chamanke-E drilling location in September 2019 and has added an additional 10,000 bopd processing capacity.

The HOEWT facilities have added 5,000 bopd of additional processing capacity at Chamanke-C drilling location. If the EPF can be expanded to cover the HOEWT processing capacity in Q4, then the HOEWT will be demobilized to save cost.

A planned shutdown of the Kurdistan-Turkey pipeline on September 29, 2019, was used to progress key debottlenecking of PF-1 as well as plant upgrades for installation of desalter units. The desalter units are planned to come online during Q4 2019 and will reduce opex costs associated with the current temporary measure for salt management which were initially implemented in Q2 2018. All debottlenecking and upgrades were completed ahead of schedule, ready for the restart of the Kurdistan-Turkey pipeline on October 6, 2019.

Field Development Planning

Results of the HOEWT at the Atrush-3 ("AT-3") are currently being integrated into the ongoing Atrush reservoir modeling workflow. This workflow will deliver plans for finalisation of the Atrush medium oil development, including identification of all additional medium oil well locations, as well as a plan for continued appraisal of the heavy oil resources. These plans will be completed during Q2 2020.

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 Company Gross basis for Atrush increased from 20.6 million barrels reported as at December 31, 2017, to 28.9 million barrels.

Total Field Unrisked Best Estimate Contingent Oil Resources ("2C")[2] on a Company Gross basis for Atrush increased from the 2017 estimate of 59.5 million barrels to 74.0 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 are estimated at $100 million, which includes:
    - installation of a 10,000 bopd EPF at the Chamanke-E drilling location and debottlenecking of existing production facilities to beyond 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.
    - installation of desalter vessels at the Processing Facilities in order to reduce the operating costs associated with the short-term salt mitigation measures

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

Ownership and Principal Terms of the Atrush PSC

Ownership

ShaMaran, through its wholly owned subsidiary, General Exploration Partners, Inc. ("GEP"), holds 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, Marathon Oil KDV B.V ("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 well-timed acquisition of an additional ownership in Atrush Block provides the Company with greater exposure to a high-quality oil field with significant and demonstrated growth potential. The operating asset is delivering consistently on guidance as the PSC prudently plans out incremental production growth. Production forecasts will create an increase in cash flow that will allow the Company to continue to fund ongoing organic growth and act on potential 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)	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017
Continuing operations:								
Revenue	**18,804**	15,071	12,071	14,531	13,240	15,328	26,501	13,907
Cost of goods sold	**(13,648)**	(12,233)	(10,307)	(15,969)	(6,945)	(6,990)	(12,168)	(9,426)
Net gain on Atrush acquisition	**-**	750	-	-	-	-	-	-
General and admin expense	**(1,881)**	(1,996)	(1,580)	(1,913)	(785)	(941)	(925)	(966)
Share based payments	**(339)**	(400)	-	-	-	-	-	-
Depreciation and amortization	**(52)**	(3)	(2)	(1)	(1)	(2)	(4)	-
Finance cost	**(5,404)**	(5,449)	(9,067)	(7,347)	(8,586)	(3,016)	(4,230)	(5,802)
Finance income	**114**	235	408	900	369	444	443	361
Income tax expense	**(14)**	(43)	(18)	(25)	(12)	(11)	(16)	(14)
Net (loss) / income	**(2,420)**	**(4,068)**	**(8,495)**	**(9,824)**	**(2,720)**	**4,812**	**9,601**	**(1,940)**
Basic and diluted net (loss) / inc. in $ per share	**(0.001)**	(0.002)	(0.004)	(0.005)	(0.001)	0.002	0.004	(0.001)

Summary of Principal Changes in the Third Quarter Financial Information

The third quarter 2019 results were primarily driven by the Company's 27.6% participating interest in Atrush Block production operations and development activities and finance costs related to the Company's $190 million of bonds outstanding. The income and expenses in the third quarter are explained in detail below.

Gross margin on oil sales

USD Thousands	Three months ended Sept 30		Nine months ended Sept 30	
	2019	**2018**	**2019**	**2018**
Revenue from Atrush oil sales	18,804	13,240	45,946	55,069
Lifting costs	(6,418)	(3,180)	(16,016)	(8,069)
Other costs of production	(742)	(39)	(2,189)	(122)
Depletion costs	(6,488)	(3,726)	(17,983)	(17,912)
Cost of goods sold	**(13,648)**	**(6,945)**	**(36,188)**	**(26,103)**
Gross margin on oil sales	**5,156**	**6,295**	**9,758**	**28,966**

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

In Q3 2019 gross exported volumes from Atrush were 3.1MMbbl (Q3 2018 2MMbbl) or 33.2Mbopd on average (Q3 2018: 21.7Mbopd) and the Company's entitlement share was approximately 405 Mbbls (Q3 2018: 223 Mbbl) which were sold with an average netback price of $46.43 per barrel (Q3 2018: $59.72).

Revenue from oil sales in Q3 2019 of $18.8 million was higher compared to $13.2 million reported in Q3 2018 due to the higher production entitlement share, however the increase was offset by the significant decrease in average netback price which was approximately 28.6% lower.

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 in the nine months of 2018 compared to the same period in 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 $7.62 per barrel in Q3. 2019 (Q3 2018: $7.92 per barrel). The decrease is mainly due to spreading certain fixed costs of production over increased production quantity.

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 Q3 2019 was $16.02 (Q3 2018: $16.71). The decrease is mainly due to the increase in entitlement barrels.

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 sale and purchase 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 Sept 30 2019	Three months ended Sept 30 2018	Nine months ended Sept 30 2019	Nine months ended Sept 30 2018
Salaries and benefits	591	453	2,599	1,449
Management and consulting fees	789	114	1,585	307
General and other office expenses	90	84	269	246
Travel expenses	71	26	193	171
Listing costs and investor relations	52	68	234	268
Legal, accounting and audit fees	288	40	577	210
General and administrative expense	**1,881**	**785**	**5,457**	**2,651**

The higher general and administrative expense incurred in Q3 2019 compared to Q3 2018 was principally due to additional consultancy costs mainly related to an increase in the Company's business development activities that also increased travel costs, legal fees mainly related to streamlining the legal structure of ShaMaran, one off costs due to the Swiss office move and an increase in technical staff in the Company's Swiss office from 2018.

Share based payments expense

USD Thousands	Three months ended Sept 30 2019	Three months ended Sept 30 2018	Nine months ended Sept 30 2019	Nine months ended Sept 30 2018
DSU recovery / (expense)	(23)	-	196	-
RSU expense	32		32	
Option expense	330	-	511	-
Total share-based payments	**339**	**-**	**739**	**-**

The share-based payments expense results from the vesting of stock options, granted deferred share units (DSUs) and restricted share units (RSUs) in the year 2019. In the three months ended September 30, 2019, 15,070,000 stock options and 11,600,000 RSUs were granted (year 2018: nil) to certain senior officers and other eligible persons of the Company. The Company uses the fair value method of accounting for stock options, DSUs and RSUs whereby the fair value of all the grants is ultimately charged to operations. The fair value of common share options granted is estimated on the date of grant using the Black-Scholes option pricing model. DSUs and RSUs are initially fair valued on the grant date, thereafter DSUs are revalued on each balance sheet date due. Also refer to the discussion under the "Outstanding share data, share units and stock options" section below.

Depreciation and amortization expense

USD Thousands	Three months ended Sept 30 2019	Three months ended Sept 30 2018	Nine months ended Sept 30 2019	Nine months ended Sept 30 2018
Depreciation and amortization expense	52	1	57	7

Depreciation and amortization expense corresponds to cost of use of the office, furniture and IT equipment at the Company's technical and administrative offices located in Switzerland and Kurdistan. The increase from 2018 to 2019 in the nine months is due to the treatment of the Swiss office lease under the new 2019 accounting standard IFRS 16 Leases. A right-of-use asset for the lease has been recognised on the balance sheet and is depreciated over the term of the lease.

Finance income

USD Thousands	Three months ended Sept 30		Nine months ended Sept 30	
	2019	**2018**	**2019**	**2018**
Interest on Atrush Development Cost Loan	36	190	241	685
Interest on Atrush Feeder Pipeline Cost Loan	33	122	169	436
Interest on deposits	12	57	309	75
Total interest income	**81**	**369**	**719**	**1,196**
Foreign exchange gain	33	-	36	-
Total finance income	**114**	**369**	**755**	**1,196**

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 Q3 2019 compared to Q3 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 to date in 2019 relative to the amount reported in 2018 is due to a higher level of interest-bearing funds held in 2019.

Finance cost

USD Thousands	Three months ended Sept 30		Nine months ended Sept 30	
	2019	**2018**	**2019**	**2018**
Interest charges on bonds at coupon rate	5,700	7,429	17,653	18,148
Amortization of bond transaction costs	33	484	815	904
Call premiums on early retirement of bonds	-	1,427	-	1,427
Re-measurement of bond debt	-	-	2,131	-
Total borrowing costs	**5,733**	**9,340**	**20,599**	**20,479**
Lease – interest expense	1	-	1	-
Foreign exchange loss	-	21	-	31
Unwinding discount on decommissioning provision	(8)	5	1	(1)
Total finance costs before borrowing costs capitalized	**5,726**	**9,366**	**20,601**	**20,509**
Borrowing costs capitalized	(322)	(780)	(683)	(4,737)
Finance cost	**5,404**	**8,586**	**19,918**	**15,772**

The decrease in interest charges on bonds at coupon rate reported in Q3 2019, compared to Q3 2018, is due to less bonds outstanding at the balance sheet date, $190 million at Q3 2019 compared to $240 million at Q3 2018, slightly offset by an increase in the coupon rate of 0.5%, 12% in Q3 2019 compared to 11.5% in Q3 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 nine months ended September 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 Q3 2019, compared to Q3 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 Sept 30		Nine months ended Sept 30	
	2019	**2018**	**2019**	**2018**
Income tax expense	14	12	75	39

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 Q3 2019 compared to Q3 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:

	Nine months ended Sept 30, 2019			Year ended December 31, 2018		
USD Thousands	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	15,920	200	16,120	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	(17,983)	(14)	(17,997)	(28,171)	(4)	(28,175)
Net book value	**205,383**	**197**	**205,580**	**195,897**	**11**	**195,908**

During the first nine months of 2019 movements in PP&E were comprised of additions of $16.1 million (year 2018: $17.4 million), Atrush acquisition increase of $11.5 million (year 2018: $nil), depletion and depreciation expense of $18.0 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 $9.7 million to the net book value of PP&E assets. Net additions in the first nine months of 2019 included capitalized borrowing costs of $683 thousand (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:

	Nine months ended Sept 30, 2019			Year ended December 31, 2018		
USD Thousands	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)	11	(199)	506	3	509
Reclass to PP&E	-	-	-	(21,794)	-	(21,794)
Amortization expense	-	(1)	(1)	-	(5)	(5)
Net book value	**67,615**	**14**	**67,629**	**67,825**	**4**	**67,829**

During the nine months of 2019 movements in intangible assets comprised of a net reversal of $210 thousand (year 2018: $506 thousand for additions) mainly due to the release of an overestimate of insurance costs and a reclass of $nil (year 2018: $21.8 million) from E&E to PP&E, Movements in other intangible assets were comprised of additions of $11 thousand for computer software (year 2018: $3 thousand) net of depreciation of $1 thousand (year 2018: $5 thousand). This resulted in a net decrease to intangible assets of $200 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 nine months ended Sept 30, 2019	For the year ended December 31, 2018
Atrush Exploration Costs receivable	43,047	34,898
Accounts receivable on Atrush oil sales	18,805	14,531
Atrush Feeder Pipeline Cost Loan	592	4,718
Atrush Development Cost Loan	363	7,136
Total loans and receivables	**62,807**	**61,283**

In the first nine months of 2019 the Company received principal plus interest payments totaling $8.7 million for Atrush Development Cost Loan and $5.4 million for the Atrush Feeder Pipeline Cost Loan, as well as $4.4 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 $9.1 million in total payments for loans and receivables balances outstanding at September 30, 2019, comprised of $6.8 million in total payments for its entitlement share of oil sales for the month of July 2019, $1 million for Atrush Development Cost Loan and Atrush Feeder Pipeline Cost Loan balances outstanding and $1.3 million in reimbursements of the Atrush Exploration Costs receivable. The Atrush Development Cost Loan and the Atrush Feeder Pipeline Cost Loan are fully repaid at the date of this MD&A.

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. On July 5, 2019 the Company issued the second semi-annual interest payment to ShaMaran bondholders in the amount of $11.4 million. At September 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	9 months ended Sept 30, 2019	12 months ended December 31, 2018
Opening balance	**250,797**	**188,491**
Interest charges at coupon rate	17,653	25,428
Re-measurement of bond debt	2,131	-
Amortization of bond transaction costs	815	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	(26,350)	(15,575)
Bonds retired	(50,000)	(186,422)
Ending balance	**194,896**	**250,797**
Current portion: borrowings plus accrued bond interest expense	20,383	14,080
Non-current portion: borrowings	174,513	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	37,800
From one to two years	42,000
From three to five years	196,000
Total	**275,800**

Liquidity and Capital Resources

Working capital at September 30, 2019 was positive $45.8 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 $72.4 million during the first nine months of 2019 (Q3 2018: increase of $79.4 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 Q3 2019 resulted in an increase of $12.7 million in the cash position (Q3 2018: increase of $40.7 million). The cash position is explained by the net loss of $15.0 million less $27.7 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 nine months of 2019 were $8.8 million (Q3. 2018: inflows of $4.4 million). Cash outflows from investing activities in nine months of 2019 were comprised of $18.4 million for the Atrush acquisition and $10.2 million on investments in the Atrush Block development work program net of cash inflows of $19.5 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 nine first months of 2019 were $76.4 million (Q3 2018: cash inflows of $34.4 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 $26.4 million for the first and second semi-annual interest payment to ShaMaran bondholders in January and July 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 Sept 30,				Amounts owing	
	Three months		Nine months		At the balance sheet dates	
USD Thousands	2019	2018	2019	2018	Sept 30, 2019	December 31, 2018
Namdo Management Services Ltd.	13	13	38	39	-	-
Lundin Petroleum AB	-	42	-	104	-	-
Bennett-Jones	-	-	-	53	-	-
Total	**13**	**55**	**38**	**196**	**-**	**-**

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 September 30, 2019, 2,207,701,534 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 nine months of 2019 were 2,160,463,036 before dilution (year 2018: 2,158,631,534) and 2,207,533,036 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 August 12, 2019, the Company granted a total of 11,660,000 RSU's to certain senior officers and other eligible persons of the Company. The RSU's vest over a period of three years and are redeemable in shares of the company over a period of five years at a price of CAD 0.08 per share. The RSU grant resulted in total charges to the Statement of Comprehensive Income of $32 thousand for the quarter.

On May 30, 2019, the Company granted a total of 3,600,625 of DSU's to non-employee directors. 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, 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 a credit of $23 thousand based on a share price of CAD 0.07 at September 30,2019. In the same period 720,053 DSUs were redeemed.

There has been no further change in the number of share units outstanding from September 30, 2019, to the date of this MD&A.

Stock options

On August 12, 2019, the Company granted a total of 15,070,000 incentive stock options to certain senior officers and other eligible persons of the Company. The options vest over a period of two years and are exercisable over a period of five years at a strike price of CAD 0.08 per share. On May 15, 2019, a grant of 10,000,000 share options was awarded to ShaMaran's Chief Executive Officer. These two option grants resulted in total charges to the Statement of Comprehensive Income of $330 thousand for the quarter. In the same period 1,000,000 share options have expired.

At September 30, 2019 there were 47,070,000 stock options outstanding under the Company's employee incentive stock option plan. 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 September 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 September 30, 2019, the outstanding commitments of the Company were as follows:

	For the year ended Sept 30,				
USD Thousands	2020	2021	2022	Thereafter	Total
Atrush Block development	26,386	120	120	1,328	27,954
Office and other	135	121	81	-	337
Total commitments	**26,521**	**241**	**201**	**1,328**	**28,291**

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 March 3, 2020, its financial statements for the year ended December 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 nine months ended September 30, 2019

Expressed in thousands of United States dollars	Note	Three months ended September 30, 2019	Three months ended September 30, 2018	Nine months ended September 30, 2019	Nine months ended September 30, 2018
Revenues	6	**18,804**	**13,240**	**45,946**	**55,069**
Cost of goods sold:					
Lifting costs	7	(6,418)	(3,180)	(16,016)	(8,069)
Other costs of production	7	(742)	(39)	(2,189)	(122)
Depletion	7	(6,488)	(3,726)	(17,983)	(17,912)
Gross margin on oil sales		**5,156**	**6,295**	**9,758**	**28,966**
Depreciation and amortization expense		(52)	(1)	(57)	(7)
Share based payments expense	20	(339)	-	(739)	-
General and administrative expense		(1,881)	(785)	(5,457)	(2,651)
Income from operating activities		**2,884**	**5,509**	**3,505**	**26,308**
Finance income	8	114	369	755	1,196
Finance cost	9	(5,404)	(8,586)	(19,918)	(15,772)
Net finance cost		**(5,290)**	**(8,217)**	**(19,163)**	**(14,576)**
Bargain purchase gain	5	-	-	9,500	-
Acquisition related costs	5	-	-	(8,750)	-
Net gain on Atrush acquisition		**-**	**-**	**750**	**-**
(Loss) / income before income tax expense		**(2,406)**	**(2,708)**	**(14,908)**	**11,732**
Income tax expense	10	(14)	(12)	(75)	(39)
(Loss) / income for the period		**(2,420)**	**(2,720)**	**(14,983)**	**11,693**
Other comprehensive income					
Items that may be reclassified to profit or loss:					
Currency translation differences		(12)	3	(7)	19
Re-measurements on defined pension plan		-	(1)	(189)	196
Total other comprehensive (loss)/income		**(12)**	**2**	**(196)**	**215**
Total comprehensive (loss) / income for the period		**(2,432)**	**(2,718)**	**(15,179)**	**11,908**
(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 September 30, 2019 and December 31, 2018

Expressed in thousands of United States dollars	Note	September 30, 2019	December 31, 2018
ASSETS			
Non-current assets			
Property, plant and equipment	*11*	205,580	195,908
Intangible assets	*12*	67,629	67,829
Loans and receivables	*14*	26,393	25,184
Right-of-use asset	*13*	333	-
		299,935	**288,921**
Current assets			
Loans and receivables	*14*	36,414	36,099
Cash and cash equivalents, unrestricted		19,978	24,586
Other current assets	*15*	330	2,286
Cash and cash equivalents, restricted	*17*	49	67,884
		56,771	**130,855**
TOTAL ASSETS		**356,706**	**419,776**
LIABILITIES			
Non-current liabilities			
Borrowings	*17*	174,513	236,717
Provisions	*18*	14,616	9,559
Pension liability		1,512	1,330
Lease liability	13	198	-
Other long-term liabilities	20	152	-
		190,991	**247,606**
Current liabilities			
Borrowings	*17*	15,000	-
Accounts payable and accrued expenses	*16*	5,462	3,875
Accrued interest expense on bonds	*17*	5,383	14,080
Lease liability	*13*	131	-
Current tax liabilities		25	16
		26,001	**17,971**
EQUITY			
Share capital	*19*	637,688	637,538
Share based payments reserve		7,039	6,495
Cumulative translation adjustment		(19)	(12)
Accumulated deficit		(504,994)	(489,822)
		139,714	**154,199**
TOTAL EQUITY AND LIABILITIES		**356,706**	**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 nine months ended September 30, 2019 and 2018

Expressed in thousands of United States dollars	Note	Three months ended September 30, 2019	Three months ended September 30, 2018	Nine months ended September 30, 2019	Nine months ended September 30, 2018
Operating activities					
(Loss) / income for the period		**(2,420)**	**(2,720)**	**(14,983)**	**11,693**
Adjustments for:					
Depreciation, depletion and amortization expense		6,540	3,727	18,040	17,919
Borrowing costs – net of amount capitalized		5,411	8,561	19,916	15,742
Share based payment expense		339	-	739	-
Bargain purchase gain	*5*	-	-	(9,500)	-
Re-measurements on defined pension plan		-	(1)	(189)	196
Unwinding discount on decommissioning provision		(8)	5	1	(1)
Foreign exchange (gain)/loss	*8,9*	(33)	21	(36)	31
Interest income	*8*	(81)	(369)	(719)	(1,196)
Changes in accounts receivables on Atrush oil sales		310	2,012	(4,274)	640
Changes in current tax liabilities		1	(4)	9	-
Changes in pension liability		-	1	200	(185)
Changes in other current assets		(46)	(26)	1,956	(2,093)
Changes in accounts payable and accrued expenses		(965)	151	1,587	(2,061)
Net cash inflows from operating activities		**9,048**	**11,358**	**12,747**	**40,685**
Investing activities					
Loans and receivables – payments received		8,214	4,390	19,512	13,440
Interest received on cash deposits	*8*	12	57	309	75
Loans and receivables – payments issued		-	-	-	(394)
Purchase of additional interest in Atrush	*5*	-	-	(18,431)	-
Purchases of intangible assets		(11)	(64)	199	(365)
Purchase of property, plant and equipment		(5,349)	(3,358)	(10,381)	(8,358)
Net cash inflows from / (outflows to) investing activities		**2,866**	**1,025**	**(8,792)**	**4,398**
Financing activities					
Net proceeds received on bonds issued		-	100,362	-	100,362
Bonds retired	*17*	-	(50,437)	(50,000)	(50,437)
Payments to bondholders - interest	*17*	(11,400)	(4,856)	(26,350)	(15,575)
Principal element of lease payments		(46)	-	(46)	-
Net cash (outflows to) / inflows from financing activities		**(11,445)**	**45,069**	**(76,395)**	**34,350**
Effect of exchange rate changes on cash and cash equivalents		(26)	(2)	(3)	(15)
Change in cash and cash equivalents		**442**	**57,450**	**(72,443)**	**79,418**
Cash and cash equivalents, beginning of the period		19,585	27,224	92,470	5,256
Cash and cash equivalents, end of the period*		**20,027**	**84,674**	**20,027**	**84,674**
***Inclusive of restricted cash**		**49**	**53,000**	**49**	**53,000**

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 nine months ended September 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	-	-	-	11,693	11,693
Other comprehensive income	-	-	19	196	215
	-	-	19	11,889	11,908
Balance at September 30, 2018	**637,538**	**6,495**	**(11)**	**(480,159)**	**163,863**
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	-	-	-	(14,983)	(14,983)
Other comprehensive loss	-	-	(7)	(189)	(196)
Transactions with owners in their capacity as owners:					
Borrowing costs	150	-	-	-	150
Share based payments expense	-	544	-	-	544
	150	544	(7)	(15,172)	(14,485)
Balance at September 30, 2019	**637,688**	**7,039**	**(19)**	**(504,994)**	**139,714**

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 First North Growth Market (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 November 5, 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 has one lease that must be recognised on the balance sheet under *IFRS 16*. This lease was undertaken in 2019 and therefore no adjustment to the opening balances as of January 1, 2019 was required.

Refer also to note 13.

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 in the Atrush block, as described in Note 5, 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 sale and purchase 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.

Refer also to Notes 6,7,11,15,18.

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 nine months of 2019 were 7.99MMbbls (2018: 5.56MMbbls) and the Company's entitlement share was approximately 0.9MMbbls (2018: 1.0MMbbls) which were sold with an average netback price of $48.79 per barrel (2018: $55.06). 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 increased in the nine-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. Revenue from oil sales in Q3 2019 of $18.8 million was higher compared to $13.2 million reported in Q3 2018 due to the higher production entitlement share, however the increase was offset by the significant decrease in average netback price which was approximately 28.6% lower.

Refer also to Notes 5 and 14.

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 September 30,		Nine months ended September 30,	
	2019	**2018**	**2019**	**2018**
Interest on Atrush Development Cost Loan	36	190	241	685
Interest on Atrush Feeder Pipeline Cost Loan	33	122	169	436
Interest on deposits	12	57	309	75
Total interest income	**81**	**369**	**719**	**1,196**
Foreign exchange gain	33	-	36	-
Total finance income	**114**	**369**	**755**	**1,196**

Refer to Note 14.

9. Finance cost

	Three months ended September 30,		Nine months ended September 30,	
	2019	**2018**	**2019**	**2018**
Interest charges on bonds at coupon rate	5,700	7,429	17,653	18,148
Amortization of bond transaction costs	33	484	815	904
Call premium on early retirement of bonds	-	1,427	-	1,427
Re-measurement of bond debt	-	-	2,131	-
Total borrowing costs	**5,733**	**9,340**	**20,599**	**20,479**
Lease – interest expense	1	-	1	-
Foreign exchange loss	-	21	-	31
Unwinding discount on decommissioning provision	(8)	5	1	(1)
Total finance costs before borrowing costs capitalized	**5,726**	**9,366**	**20,601**	**20,509**
Borrowing costs capitalized	(322)	(780)	(683)	(4,737)
Finance cost	**5,404**	**8,586**	**19,918**	**15,772**

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 nine months ended September 30, 2019, includes a loss of $671 thousand related to the partial settlement of debt in the period.

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. The capitalisation of borrowing costs has ceased for a significant number of development projects, which have been completed for their intended use, leading to less borrowing costs being capitalised.

Refer also to Notes 13, 17 and 19.

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 nine months of 2019 movements in PP&E were comprised of additions of $27.7 million (full year 2018: $17.4 million), which included the $11.5 million acquired from MOKDV measured at fair value and capitalized borrowing costs of $683 thousand (full year 2018: $5.0 million) net of depletion and depreciation of $18.0 million (full year 2018: $28.2 million) which resulted in a net increase to PP&E assets of $9.7 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.

13. Right-of-use asset and lease liability

The right-of-use asset relates to the three-year office lease for the Company's technical and administrative office in Vésenaz, Switzerland. In accordance with *IFRS 16: Leases*, the office lease must be recognised on the balance sheet as a right-of-use asset with a corresponding lease liability. The right-of use asset has been initially recorded at the initial value of the lease liability. The lease liability is measured at an amount equal to the present value of the lease payments during the lease term that are not yet paid and is then amortised over the lease term using the effective interest method. The right-of-use asset is depreciated over the lease term on a straight-line basis.

At September 30, 2019, the balance sheet shows a value of $333 thousand for the right-of-use asset, $375 thousand initial value less $42 thousand depreciation, and a lease liability value of $329 thousand, $131 thousand as a current liability and $198 thousand as a non-current liability. The income statement in the nine months ending September 30, 2019, includes the depreciation charge of the right-of-use asset of $42 thousand plus an interest expense of $1 thousand included in the finance cost. For the year 2018 there were no leases.

Expressed in thousands of United States dollars

14. Loans and receivables

	At September 30, 2019	At December 31, 2018
Atrush Exploration Costs receivable	43,047	34,898
Accounts receivable on Atrush oil sales	18,805	14,531
Atrush Feeder Pipeline Cost Loan	592	4,718
Atrush Development Cost Loan	363	7,136
Total loans and receivables	**62,807**	**61,283**
Current portion	36,414	36,099
Non-current portion	26,393	25,184

Refer also to Notes 5, 6 and 8.

15. Other current assets

	At September 30, 2019	At December 31, 2018
Prepaid expenses	231	176
Other receivables	99	110
Deposit on purchase of additional Atrush interest	-	2,000
Total other current assets	**330**	**2,286**

Refer also to Note 5.

16. Accounts payable and accrued expenses

	At September 30, 2019	At December 31,2018
Payables to joint operations partner	4,370	2,734
Trade payables	573	282
Accrued expenses	519	859
Total accounts payable and accrued expenses	**5,462**	**3,875**

Refer also to Note 5.

17. 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. On July 5, 2019 the Company issued the second semi-annual interest payment to ShaMaran bondholders in the amount of $11.4 million. At September 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:

	9 months ended September 30, 2019	12 months ended December 31, 2018
Opening balance	**250,797**	**188,491**
Interest charges at coupon rate	17,653	25,428
Re-measurement of bond debt	2,131	-
Amortization of bond transaction costs	815	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	(26,350)	(15,575)
Bonds retired	(50,000)	(186,422)
Ending balance	**194,896**	**250,797**
Current portion: borrowings plus accrued bond interest expense	20,383	14,080
Non-current portion: borrowings	174,513	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 September 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. This reduction in borrowings of $15 million is identified as a current liability on the balance sheet. The remaining obligations are as follows:

Less than one year	37,800
From one to two years	42,000
From three to four years	196,000
Total	**275,800**

Refer also to Notes 9 and 19.

18. 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

19. 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 September 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 17.

20. Share based payments expense

On August 12, 2019, the Company granted a total of 15,070,000 incentive stock options and 11,660,000 restricted share units ("RSU") to certain senior officers and other eligible persons of the Company. The options vest over a period of two years and are exercisable over a period of five years at a strike price of CAD 0.08 per share. On May 15, 2019, a grant of 10,000,000 share options was awarded to ShaMaran's Chief Executive Officer. These two option grants resulted in total charges to the Statement of Comprehensive Income of $330 thousand for the quarter. In the same period 1,000,000 share options have expired. The RSU's vest over a period of three years and are redeemable in shares of the company over a period of five years at a price of CAD 0.08 per share. The RSU grant resulted in total charges to the Statement of Comprehensive Income of $32 thousand for the quarter.

On May 30, 2019, the Company granted a total of 3,600,625 of deferred share units ("DSU") to non-employee directors. 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, 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 a credit of $23 thousand based on a share price of CAD 0.07 at September 30,2019. In the same period 720,053 DSUs were redeemed.

The carrying amount of the DSU liability at September 30, 2019, is $152 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

21. Financial instruments

Financial assets

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

	Carrying and fair values [1]	
	At September 30, 2019	At December 31, 2018
Cash and cash equivalents, unrestricted [2]	19,978	24,586
Loans and receivables [2]	19,760	26,385
Other receivables [2]	99	110
Cash and cash equivalents, restricted [2]	49	67,884
Total financial assets	**39,886**	**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 September 30, 2019	At December 31, 2018
Borrowings [3]	Level 2	189,513	236,717
Accounts payable and accrued expenses [2]		5,462	3,875
Accrued interest on bonds		5,383	14,080
Current tax liabilities		25	16
Total financial liabilities		**200,383**	**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

22. Commitments and contingencies

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

	For the year ended September 30,				
	2020	2021	2022	Thereafter	Total
Atrush Block development and PSC	26,386	120	120	1,328	27,954
Office and other	135	121	81	-	337
Total commitments	**26,521**	**241**	**201**	**1,328**	**28,291**

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).

23. Related party transactions

Transactions with corporate entities

	Purchase of services for periods ended September 30,				Amounts owing at the balance sheet dates	
	three months		nine months			
	2019	2018	2019	2018	September 30, 2019	December 31, 2018
Namdo Management Services Ltd.	13	13	38	39	-	-
Bennett-Jones	-	42	-	104	-	-
Lundin Petroleum AB	-	-	-	53	-	-
Total	**13**	**55**	**38**	**196**	**-**	**-**

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 17.

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Geneva, Switzerland

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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

William Lundin
Director
Calgary, Canada

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

Kathy Love
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TRANSFER AGENT

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Vancouver, Canada

STOCK EXCHANGE LISTINGS

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

ShaMaran Petroleum Corp.