SHAMARAN petroleum corp

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Financial Report

For the three ended March 31, 2020 (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.

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Management's Discussion and Analysis

For the three months ended March 31, 2020

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 May 11, 2020. The MD&A should be read in conjunction with the unaudited condensed interim consolidated financial statements for the three months ended March 31, 2020, 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. As a Lundin Group Company, ShaMaran can leverage the expertise and strength of a group 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"). Fourteen wells have been drilled to date and ten wells are currently producing.

The present challenges posed by the COVID-19 pandemic have been met with the implementation of a comprehensive action plan in February 2020. This action plan aims to ensure operations staff wellbeing and assure business continuity. The current low oil price environment associated with the COVID-19 oil demand collapse has driven a revision of the Atrush 2020 budget. The Atrush partners have therefore deferred commencing new field development project spending during 2020. Despite these operational and budgetary constraints, Atrush's production guidance for 2020 is maintained at 44,000 to 50,000 bopd.

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 1.6 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.

Management's Discussion and Analysis
For the three months ended March 31, 2020

FIRST QUARTER 2020 HIGHLIGHTS AND KEY EVENTS

In the first quarter of 2020 Atrush achieved further production milestones, expanded well and processing capacities and met production targets despite the increasingly challenging operating environment resulting from the COVID-19 pandemic.

Financial and Corporate

Imminent Liquidity Shortfall:

- The Company is currently in process of addressing an imminent liquidity shortfall. The Company projects that its normal operations at current depressed oil prices will not generate enough cash to pay for $26.4 million of bond obligations when they come due on or before July 5, 2020. The global drop in the demand for oil and collapse in world oil prices has placed rapid and extraordinary downward pressure on the Company's gross margin and has strained the ability of the Kurdistan Regional Government ("KRG") to pay the Company for past purchases of higher priced oil resulting in further significant negative impacts to operational cash flows. Discussions are underway with the KRG as to the timing of payment of the $42 million owed for deliveries from November 2019 to February 2020; however, the Company does not expect to collect any of this past due amount in the next year. The Company has therefore retained advisors and engaged with stakeholders to examine options such as restructuring, recapitalization or other available alternatives to find a solution to address the imminent liquidity shortfall. The outcome of an eventual solution could result in significant additional impairment to the assets of the Company.

Impairment loss on PP&E and E&E assets:

- The Company reports a $48.6 million impairment loss on the book value of PP&E relating to the Company's Atrush 2P reserves base and a $67.6 million impairment loss on the book value of intangible exploration and evaluation costs relate to the Company's Atrush 2C resource base. The Company has made these determinations by conducting an impairment assessment as required by accounting standards.

Breach in Bond Covenant:

- As a result of the impairment loss the Company's Equity Ratio is 7.3% which is less than the minimum 30% required in ShaMaran's bond agreement. Therefore the Company is currently in breach of this Bond covenant; however, the bond agreement provides for up to 20 days to secure a remedy. The Company has informed the bond trustee of the situation and the Company will be engaging with bondholders regarding a potential solution.

Operations

COVID-19 Response:

- A comprehensive COVID-19 action plan was implemented in February 2020 with overriding objectives of ensuring personnel safety and wellbeing as well as assuring efficient business continuity.

Achieved significant production milestones:

- Total oil exported from the Atrush field reached 25 million barrels on February 5, 2020.
- A record high Atrush daily oil production of 54,055 bopd was recorded on March 27, 2020.

Strong production performance:

- 12% increase in Q1 2020 production over Q4 2019 (46.7 Mbopd vs 41.7 Mbopd) due to stabilizing contributions from 2019 wells and increased processing capacity at Early Production Facility ("EPF") at the Chamanke-E drilling location.
- Atrush produced 78% more oil in Q1 2020 compared to Q1 2019 production (46.7 Mbopd vs. 26.3 Mbopd) and was within the production guidance range of 44,000 to 50,000 bopd.

Decreasing lifting costs:

- The average lifting cost per barrel of oil produced from Atrush in the quarter was $5.90 per barrel which was down from $8.89 per barrel in Q1 2019.

Reserves and Resources

Increased reserves and resources:

- Total field proven plus probable ("2P") reserves on a Company gross basis for Atrush increased from 21.3 million barrels reported as at December 31, 2018, to 29.9 million barrels as at December 31, 2019, a 40% increase.
- Total field unrisked best estimate contingent oil resources ("2C")[1] on a Company gross basis for Atrush increased from the 2018 estimate of 53.9 million barrels to 67.2 million barrels as at December 31, 2019.

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[1] 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.

OPERATIONS REVIEW

COVID-19 Response:
With the objectives of ensuring operations personnel safety and wellbeing as well as assuring business continuity, a COVID-19 action plan was implemented in February 2020 comprising the following elements:

1. Minimisation of Operations Team Exposure
   - All non-critical Expat personnel demobilized before Erbil airport shutdown on March 17, 2020
   - Reduction of operations personnel to minimum required for safe continuation of production operations
   - Reduce workforce hours to respect curfew and allow personnel to rest during potentially long rotation caused by travel restrictions
   - Only critical movements allowed within the Kurdistan Region of Iraq
   - Quarantine of personnel arriving in country
2. Monitoring of Operations Team Wellbeing
   - Daily health monitoring in place for all personnel
3. Budget and development project review and suspend commencing new development project spending
4. Monitoring and mitigation of critical supply disruptions
   - Daily monitoring of critical supplies, namely diesel and chemicals with aim to keep 7-14 days rolling supply
   - Series of tests performed at the Atrush Permanent Production Facilities ("PF-1") to evaluate impact of reduced chemical consumption rates on daily production

Production

	Three months ended March 31		Three months ended December 31
	2020	2019	2019
Atrush average daily oil production – gross 100% field (Mbopd)	46.7	26.3	41.7
Atrush oil sales – gross 100% field (Mbbl)	4,245	2,366	3,832
ShaMaran's entitlement in Atrush oil sales:			
• Mbbl related to initial 20.1% interest	411	253	370
• Mbbl related to additional 7.5% interest	153	-	138
Total Company entitlement (Mbbl)	564	253	508

Atrush production for the quarter was up 78% compared to Q1 2019 and by 12% more than Q4 2019 mainly due to:

- Additional production from new wells Chiya Khere-6 ("CK-6"), Chiya Khere-10 ("CK-10"), Chiya Khere-11 ("CK-11"), Chiya Khere-12 ("CK-12"), Chiya Khere 13 ("CK-13") and Chiya Khere 15 ("CK-15").
- Debottlenecking of PF-1.
- Expansion of the EPF during Q1 2020.

This highest Atrush daily oil production of 54,055 bopd was recorded on March 27, 2020.

Drilling and Completions

In March 2020 a new Electrical Submersible Pump ("ESP") was installed in the Chiya Khere-7 production well at the Chamanke-E drilling location. The new ESP has increased CK-7 production rates from 7,000 bopd to over 9,000 bopd.

Facilities

The EPF which, installed and commissioned at the Chamanke-E drilling location in September 2019 with 10,000 bopd processing capacity, was expanded in February 2020 through the addition of a second train. The second train has increased the EPF processing capacity to 18,000 bopd which, including 40,000 bopd capacity at PF-1, brings overall Atrush processing capacity to 58,000 bopd.

A desalter unit was installed in 2019 were commissioned in March 2020 and are now online. Temporary salt mitigation facilities have now been demobilised.

Field Development Planning

A revised Atrush Field Development Plan ("FDP 2020") work has been progressed with external peer reviews of the subsurface modelling in February 2020, progressing identification and refinement of the base case history matched model. These models will be iterated through development planning options and economics during April and May 2020 and completion of FDP 2020 is expected to be delivered during Q2 2020.

Reserves and Resources

The Company reported estimated reserves and contingent resources for the Atrush field as at December 31, 2019, 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 21.3 million barrels reported as at December 31, 2018, to 29.9 million barrels as at December 31, 2019.

Total field unrisked best estimate contingent oil resources ("2C")[2] on a Company gross basis for Atrush increased from the 2018 estimate of 53.9 million barrels to 67.2 million barrels as at December 31, 2019.

Total discovered oil in place in the Atrush block is a low estimate of 1.6 billion barrels, a best estimate of 2.0 billion barrels and a high estimate of 2.6 billion barrels.

For more information on reserves and resources please reference our Form 51-101 F1 Statement of Reserves Data and Other Oil and Gas Information as at December 31, 2019.

Operational Outlook

The Company reiterates the updated guidance for 2020 provided in its news release of April 28, 2020, as follows:

- Atrush field gross average daily production is expected to range from 44,000 bopd to 50,000 bopd. Final 2020 production will depend principally on well, facility and export pipeline uptimes and possible OPEC+ cuts if applicable to Kurdistan producers.
- Average lifting costs are estimated to range to \$4.50 per barrel to \$5.10 per barrel (from previous guidance range of \$5.50 per barrel to \$6.70 per barrel.
- Atrush gross capital expenditures for 2020 are estimated at \$28 million (\$8 million net to ShaMaran) for previously commenced facility improvements and planning, including:
  - design of facilities designed to eliminate gas flaring at Atrush, an important initiative in environmentally responsible operations;
  - completion of the FDP 2020 in Q2 2020.
- The KRG has committed to paying for monthly production by the 15th day of each following month starting with March 2020. Payment of \$3.5 million for March deliveries was received in April.

[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.

For additional background and history on Atrush ownership please refer to the Company's Annual Information Form for the year ended December 31, 2019 , 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.

Principal Terms of the Atrush PSC

Under the terms of the Atrush PSC, the development period is for 20 years beginning October 1, 2013 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 Non-Government Contractors and 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%.

Business Outlook

The first quarter of 2020, with the onset of the COVID-19 pandemic and corresponding collapse in demand for oil in the world market has placed significant downward pressure on oil price and ushered in unprecedented uncertainty. The Company has taken decisive actions to scale back development in order to retain the resilience required to continue forward in these uncertain times while remaining agile to scale back up pending a stabilization of the macro economic factors. Despite these measures, ShaMaran still faces significant liquidity constraints which have to be addressed.

Under the terms of the ShaMaran's agreement with bondholders ShaMaran is required to reduce its bonds outstanding by $15 million on or before July 5, 2020 and on the same day to pay $11.4 million of semi-annual annual coupon interest to bondholders. The Company projects that its normal operations at current depressed oil prices will not generate enough cash to pay for $26.4 million of bond obligations when they come due. The global drop in the demand for oil and collapse in world oil prices has placed rapid and extraordinary downward pressure on the Company's gross margin and has strained the ability of the KRG to pay the Company for past purchases of higher priced oil resulting in further significant negative impacts to operational cash flows. Discussions are underway with the KRG as to the timing of payment of the $42 million owed for deliveries from November 2019 to February 2020; however, the Company does not expect to collect any of this past due amount in the next year. The Company has therefore retained advisors and engaged with stakeholders to examine options such as restructuring, recapitalization or other available alternatives to find a solution to address the imminent liquidity shortfall. The outcome of an eventual solution could result in significant additional impairment to the assets of the Company.

FINANCIAL REVIEW

Financial Results

Selected Quarterly Financial Information

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

USD Thousands (except per share data)	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018
Continuing operations:								
Revenue	**19,841**	24,345	18,804	15,071	12,071	14,531	13,240	15,328
Cost of goods sold	**(20,771)**	(14,071)	(13,648)	(12,233)	(10,307)	(15,969)	(6,945)	(6,990)
General and admin expense	**(1,876)**	(2,975)	(1,881)	(1,996)	(1,580)	(1,913)	(785)	(941)
Share based payments	**(716)**	(205)	(339)	(400)	-	-	-	-
Depreciation and amortization	**(49)**	(46)	(52)	(3)	(2)	(1)	(1)	(2)
Impairment loss	**(116,164)**	-	-	-	-	-	-	-
Finance cost	**(5,479)**	(5,507)	(5,402)	(5,449)	(9,067)	(7,347)	(8,586)	(3,016)
Finance income	**34**	71	112	235	408	900	369	444
Net gain on Atrush acquisition	**-**	-	-	750	-	-	-	-
Income tax expense	**(31)**	(26)	(14)	(43)	(18)	(25)	(12)	(11)
Net (loss) / income	**(125,211)**	**1,586**	**(2,420)**	**(4,068)**	**(8,495)**	**(9,824)**	**(2,720)**	**4,812**
Basic and diluted net (loss) / inc in $ per share	**(0.058)**	0.001	(0.001)	(0.002)	(0.004)	(0.005)	(0.001)	0.002

Summary of Principal Changes in the First Quarter Financial Information

The $125 million net loss in Q1 2020 was primarily driven by the $116.2 million impairment loss and financing costs of $5.5 million which relate mainly to the Company's bonds.

The results of the first quarter of 2020 have been adversely affected by the impact of sharply falling oil prices, a production milestone bonus and non-cash share based payment expenses. The Company has determined a $7.2 million negative impact on revenues of sales of first quarter production, which was up by 12% relative to the fourth quarter of 2019, at lower oil prices down $12.70 per barrel relative to the average price last quarter.

The income and expenses the first quarter are explained in more detail in the following sections.

EBITDAX - Non IFRS Measures

USD Thousands	Three months ended March 31 2020	2019
Revenues	19,841	12,071
Lifting costs	(6,914)	(4,226)
Other costs of production	(3,722)	(680)
General and administrative expense	(1,876)	(1,580)
Share based payments	(716)	-
EBITDAX	**6,613**	**5,585**

Earnings before interest, tax, depreciation, amortisation, and exploration expense ("EBITDAX") is calculated as the net result before financial items, taxes, depletion of oil and gas properties, impairment costs, depreciation and exploration expenses and adjusted for non-recurring profit/loss on sale of assets and other income. The EBITDAX for Q1 2020 is 18% higher than in Q1 2019 mainly due to an increased interest in Atrush from 20.1% to 27.6% as well as higher production and despite significantly lower average oil prices and additional costs such as the production bonus. Further explanations are provided in the following sections.

Non-IFRS measures do not have any standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other public companies. Non-IFRS measures should not be considered in isolation or as a substitute for measures prepared in accordance with IFRS. The Corporation uses non-IFRS measures to provide investors with supplemental measures.

Gross margin on oil sales

USD Thousands	Three months ended March 31 2020	2019
Revenue from Atrush oil sales	19,841	12,071
Lifting costs	(6,914)	(4,226)
Other costs of production	(3,722)	(680)
Depletion costs	(10,135)	(5,401)
Cost of goods sold	**(20,771)**	**(10,307)**
Gross margin on oil sales	**(930)**	**1,764**

Revenue from Atrush oil sales: relates to the Company's entitlement share of oil sales from Atrush. The increase in revenues between the first quarters of 2020 and 2019 were driven by higher average daily production (47Mbopd vs 26Mbopd) and a larger Atrush interest (27.6% vs 20.1%) and were offset by lower average net oil prices between the periods. First quarter 2020 production was sold at an average annual net oil price of $35.21 after deducting $15.43 average annual discount for oil quality and transportation costs which compares, respectively, to $47.76 and $15.43 for oil sales made in first quarter of 2019. The higher Atrush production and larger interest in Atrush resulted in increased revenues of $14.8 million (123%) which was offset by $7 million of negative impact on revenues due to sales of oil at lower average quarterly oil prices by $12.55 per barrel.

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 $5.90 per barrel in Q1 2020 (Q1 2019: $8.89 per barrel). The decrease per barrel related to lower total lifting costs which in Q1 2019 included additional costs to manage salt issues, water handling and well workovers, and to spreading the fixed operating costs over a larger production volume in the first quarter of this year which was 78% higher than Q1 2019.

Other costs of production: include the Company's share of production bonuses paid to the KRG and its share of other costs prescribed under the Atrush PSC. Other costs of production in Q1 2020 included $3.7 million due to the KRG for the Company's share of the production bonus related to cumulative oil production from Atrush of 25 million barrels which was reached in February 2020.

Depletion costs: The depletion cost per entitlement barrel in Q1.2020 was $17.99 (Q1 2019: $21.37). The decrease is mainly due to the impact of the 2019 year end reserves report and the increase in the Company's entitlement production between the periods. However total depletion costs nearly doubled due to higher entitlement production by 122% over the first quarter of last year.

Gross margin on oil sales: The gross margin was lower in Q1 2020 by $2.7 million mainly because of the $3.7 million production bonus payment to the KRG and the $7 million negative impact of the lower oil prices. Lifting costs and depletion costs increased as expected with increased production, however costs per barrel were lower as discussed above. The upward driver, offsetting the increase lifting and depletion costs, in the Q1 variance was $14.8 million due to the 78% higher production and an additional 7.5% working interest.

General and administrative expense

USD Thousands	Three months ended March 31 2020	2019
Salaries and benefits	799	637
Management and consulting fees	579	464
Legal, accounting and audit fees	214	255
General and other office expenses	106	84
Listing costs and investor relations	99	108
Travel expenses	79	32
General and administrative expense	**1,876**	**1,580**

The higher general and administrative expense incurred in the first quarter of 2020 compared to the same period of 2019 was principally due to higher costs related to value-added initiatives to streamline and strengthen the Company's core business technical capacity, corporate structure and business development function resulting in added management and consulting fees. The Company also incurred additional costs related to strengthening the number of staff in the Company's Swiss service office since quarter one of 2019 and benefits relating to the Company's short-term incentive plan.

Share based payments expense

USD Thousands	Three months ended March 31 2020	2019
Option expense	588	-
RSU expense	77	-
DSU expense	51	-
Total share-based payments	**716**	**-**

The share-based payments expense relates to the vesting of stock options, granted deferred share units ("DSUs") and restricted share units ("RSUs"). At March 31, 2020, there was in total 60,910,000 outstanding stock options (2019: nil) and 32,910,000 RSUs (2019: nil) granted to certain senior officers and other eligible persons of the Company and 7,346,877 DSUs (2019: nil) granted to ShaMaran's non-executive directors. 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 March 31 2020	2019
Depreciation and amortization expense	49	2

Depreciation and amortization expense correspond 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 2019 to 2020 in the 3 months is due to the purchase of new furniture and IT equipment in the new Swiss office and 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.

Impairment loss

USD Thousands	Three months ended March 31 2020	2019
Impairment loss	116,164	-

International Financial Reporting Standards require, due to the significant decline in world oil prices up to the reporting date, that the Company undertake an impairment assessment of the recoverability of the net book value of its oil and gas assets. Accordingly the Company has determined there is a $48.5 million impairment loss on the book value of PP&E relating to the Company's Atrush 2P reserves base and a $67.6 million impairment loss on the book value of intangible exploration and evaluation costs relate to the Company's Atrush 2C resource base. Refer to the "Capital Expenditures on Property, Plant & Equipment" and "Capital Expenditures on Intangible Assets sections below for additional information."

Finance income

USD Thousands	Three months ended March 31 2020	2019
Interest on deposits	2	216
Interest on Atrush Development Cost Loan	-	113
Interest on Atrush Feeder Pipeline Cost Loan	-	74
Total interest income	**2**	**403**
Foreign exchange gain	32	5
Total finance income	**34**	**408**

Both the Atrush Development Cost Loan and the Atrush Feeder Pipeline Cost Loan were fully repaid in 2019.

Interest on deposits represents bank interest earned on cash, investments and restricted cash held in interest bearing funds. The decrease in interest income reported to date in 2020 relative to the amount reported in 2019 is due to a higher level of interest-bearing funds held in 2019.

Finance cost

USD Thousands	Three months ended March 31 2020	2019
Interest charges on bonds at coupon rate	5,700	6,317
Amortization of bond transaction costs	32	750
Re-measurement of bond debt	-	2,131
Total borrowing costs	**5,732**	**9,198**
Lease – interest expense	2	-
Unwinding discount on decommissioning provision	(9)	10
Total finance costs before borrowing costs capitalized	**5,725**	**9,208**
Borrowing costs capitalized	(246)	(141)
Finance cost	**5,479**	**9,067**

The decrease in interest charges on bonds at coupon rate between the reporting periods is due to less bonds outstanding during the period. The Company had $240 million of bonds outstanding for the first 39 days of 2019 when $50 million of bonds were retired on February 8, 2019 bringing bonds outstanding down to $190 million where the balance has remained to date.

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. For further information on the Company's borrowings refer to the discussion in the section below entitled "Borrowings". The increase in capitalized borrowing costs is due to additional development projects having been completed for their intended use between the reporting periods.

Income tax expense

USD Thousands	Three months ended March 31 2020	2019
Income tax expense	31	18

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 the first quarter of 2020 compared to 2019 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:

	Three months ended March 31, 2020			Year ended December 31, 2019		
USD Thousands	Oil and gas assets	Office equipment	Total	Oil and gas assets	Office equipment	Total
Opening net book value	**207,695**	**208**	**207,903**	**195,897**	**11**	**195,908**
Additions	3,297	(1)	3,296	25,971	224	26,195
Atrush acquisition	-	-	-	11,549	-	11,549
Depletion and depreciation expense	(10,135)	(14)	(10,149)	(25,722)	(27)	(25,749)
Impairment	(48,550)	-	(48,550)	-	-	-
Net book value	**152,307**	**193**	**152,500**	**207,695**	**208**	**207,903**

During the first three months of 2020 movements in PP&E were comprised of additions of $3.3 million (2019: $37.7 million), which included capitalized borrowing costs of $246 thousand (2019: $1.0 million), net of depletion of $10.1 million (2019: $25.7 million) and an impairment of $48.6 million (2019: nil) which resulted in a net decrease to PP&E assets of $55.4 million.

Due to a significant decline in world oil prices in the first quarter of 2020 the Company has conducted an impairment test to assess if the net book value of its oil and gas assets is recoverable. The impairment test is based on McDaniel's production and cost profiles related to proved and probable reserves and uses oil price forecasts as of March 31, 2020, a recently revised 2020 operating budget, a future cost inflation factor of 2% per annum and a discount rate of 15.5% to calculate the net present value at March 31, 2020 of the Company's projected share of future cash flows of the Atrush 2P reserves, and is weighted with additional business continuity risk to determine a recoverable value of $152.5 million. Therefore, a non-cash impairment loss of the Company's PP&E assets has been recognized in the amount of $48.6 million and included in the statement of comprehensive income for the quarter ended March 31, 2020.

The average Brent oil price assumptions used for the impairment at March 31, 2020, were based on a McDaniel forecast for the next four years and thereafter prices are inflated by 2% per year:

Year	2020	2021	2022	2023
Forecast $/bbl	35.50	46.41	55.14	61.55

A sensitivity analysis shows that a $5/bbl decrease in the oil price would increase the impairment loss by $19 million whereas a $5/bbl increase in the oil price would decrease the impairment loss by $15.5 million. Using a 1% increase in the discount rate used to calculate the net present value would increase the impairment loss by $3.9 million while a 1% decrease in the discount rate would decrease the impairment loss by $3.7 million. If expectations with regard to timing of cash flows are not met it could also result in additional impairment losses. If expectations with regard to timing of cash flows are not met it could also result in additional impairment losses.

The Company has retained advisors and engaged with stakeholders to examine options such as restructuring, recapitalization or other available alternatives to find a solution to address the imminent liquidity shortfall. The outcome of an eventual solution could result in significant additional impairment to the assets of the Company.

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:

	Three months ended March 31, 2020			Year ended December 31, 2019		
USD Thousands	E&E assets	Software & Licences	Total	E&E assets	Software & Licences	Total
Opening net book value	**67,616**	**33**	**67,649**	**67,825**	**4**	**67,829**
Addition / (reversal)	-	5	5	(209)	39	(170)
Amortization expense	-	(4)	(4)	-	(10)	(10)
Impairment	(67,616)	-	(67,616)	-	-	-
Net book value	**-**	**34**	**34**	**67,616**	**33**	**67,649**

During the first three months of 2020 movements in intangible assets comprised of additions of nil (year 2019: reversal $209 thousand) mainly due to the release of an overestimate of insurance costs.

Due to a significant decline in world oil prices in the first quarter of 2020 the Company has conducted an impairment test to assess if the net book value of its E&E assets is recoverable. The impairment test is based on management's production and cost profiles related to the Atrush contingent oil resources ("2C") and uses oil price forecasts as of March 31, 2020, a recently revised 2020 operating budget, a future cost inflation factor of 2% per annum and a discount rate of 15.5% to calculate the net present value at March 31, 2020 of the Company's projected share of future cash flows of the Atrush 2C resources, and is weighted with additional business continuity risk to determine a nil recoverable value. Therefore, a non-cash impairment loss of the Company's E&E assets has been recognized in the amount of $67.6 million and included in the statement of comprehensive income for the quarter ended March 31, 2020.

The average Brent oil price assumptions used for the impairment assessment were consistent with the McDaniel forecast provided in the PP&E section above.

A sensitivity analysis shows that a $5/bbl increase in the oil price would not result in a reduction to the impairment loss nor would a 1% decrease in the discount rate. The Company has retained advisors and engaged with stakeholders to examine options such restructuring, recapitalization or other available alternatives to find a solution to address the imminent liquidity shortfall. The outcome of an eventual solution could result in significant additional impairment to the assets of the Company.

Movements in other intangible assets were comprised of additions of $5 thousand for computer software (year 2019: $39 thousand) net of depreciation of $4 thousand (year 2019: $10 thousand). This resulted in a net decrease to intangible assets of $1 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 receivable[3], which relates 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. Repayment in full of both the Atrush Development Cost Loan and the Atrush Feeder Pipeline Cost Loan was completed in October 2019, which were repaid with interest at 7% per annum. The Company was owed amounts for its entitlement share of oil deliveries made to the KRG during the last six months.

[3] 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 and will be repaid based on an agreed amount of the KRG's share of oil sales for each month's deliveries.

At March 31, 2020, the Company had loans and receivables outstanding as follows:

USD Thousands	At March 31, 2020	At December 31, 2019
Accounts receivable on Atrush oil sales	43,355	35,535
Atrush Exploration Costs receivable	39,655	41,782
Total loans and receivables	**83,010**	**77,317**

In the period from the balance sheet date up to the date of this MD&A the Company received $11.8 million in total payments for receivables balances outstanding at March 31, 2020, comprised of $10.2 million in total payments for its entitlement share of oil sales for the months of October 2019 and March 2020 and $1.6 million in reimbursements of the Atrush Exploration Costs receivable.

Discussions are underway with the KRG as to the timing of payment $41.7 million owed to the Company for $34 million of deliveries from November 2019 to February 2020 and an additional $7.7 million of Atrush Exploration Costs receivable invoiced over the same period; however, the Company does not expect to collect any of this past due amount in the next year and this amount is therefore reported as non-current.

Borrowings

The ShaMaran bonds have a five-year maturity without amortization and carry 12% fixed semi-annual coupon and mature on July 5, 2023. The Company paid $11.4 million in cash for interest payments to the bondholders on January 5, 2020. At March 31, 2020, there were $190 million of ShaMaran Bonds outstanding.

Under the terms of the bond agreement the Company is required to maintain a 30% Equity Ratio, defined as total equity divided by total assets. As the ShaMaran's Equity Ratio is 7.3% the Company is in breach of this Bond covenant. The bond agreement provides for up to 20 days to secure a remedy. Accordingly, the entire borrowing cost is considered a current liability. Further, the Company does not expect to have sufficient liquidity to pay its bond obligations coming due on July 5, 2020. ShaMaran is required to reduce its bonds outstanding by $15 million on or before July 5, 2020 and on the same day to pay $11.4 million of semi-annual annual coupon interest to bondholders. The Company is exploring several different options for addressing these issues as follows:

- the bond trustee has been informed of the breach in covenants and the Company will be engaging with bondholders regarding a potential solution; and
- The Company has engaged SB1M as its financial advisor to assist with a potential solution.

The movements in borrowings are explained as follows:

USD Thousands	At March 31, 2020	At December 31, 2019
Opening balance	**200,693**	**250,797**
Interest charges at coupon rate	5,700	23,417
Amortization of bond transaction costs	32	848
Re-measurement of bond debt	-	2,131
Bond transaction costs	-	(150)
Bonds retired	-	(50,000)
Payment to Bondholders – interest and call premiums	(11,400)	(26,350)
Ending balance	**195,025**	**200,693**
Current portion: borrowings	189,578	15,000
Current portion: accrued bond interest expense	5,447	11,147
Non-current portion: borrowings	-	174,546

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 until July 2020 when ShaMaran Bonds outstanding will be reduced to $175 million following the completion by the Company of its obligation to pay down $15 million of bonds, identified as a current liability on the balance sheet, are as follows:

USD Thousands	
Less than one year	36,900
From one to two years	42,000
From three to four years	185,500
Total	**264,400**

Liquidity and Capital Resources

	Three months ended March 31	
	2020	**2019**
Selected liquidity indicators		
Cash flow from operations	1,863	9,110
Cash in bank	4,646	37,875
(Negative)/ positive working capital	(186,984)	36,445

Cash flow from operations of $1.9 million for Q1 2020 is down significantly from $9.1 million reported in Q1 2019 principally due to shrunken margins on significantly lower oil prices and negative cash impact of delays in collecting accounts receivables, and despite the positive cash flow effects of higher production and a larger working interest in Atrush.

Working capital at March 31, 2020 was negative $187 million compared to positive $36.5 million at March 31, 2019. The decrease in working capital since March 31, 2019 is principally due to the reclass of all borrowings to current liabilities as a result of the breach of the Company's Equity ratio bond covenant and the delay in payments for oil sales. For additional information fefer to the Borrowings and Loans and Receivables sections above.

The overall cash position of the Company decreased by $10.9 million during the 3 months of 2020, a decrease of $54.6 million during the same period of 2019. The main components of the movement in funds were as follows:

- The operating activities of the Company during the first three months of 2020 resulted in an increase of $1.9 million in the cash position (2019: increase of $9.1 million). The cash position is explained by the net loss of $40 million less $41.9 million of net positive cash adjustments from working capital items, net borrowing costs and non-cash expenses including the $31 million net loss on the E&E asset impairment.
- Net cash outflows from investing activities in 2019 were $1.3 million (2019: inflows to $1.3 million). Cash outflows from investing activities in the first three months of 2020 were comprised of $3.4 million for the Atrush acquisition net of cash inflows of $2.1 million in payments by the KRG of Atrush loans and receivables, and $0.02 million of interest on deposits.
- Net cash outflows from financing activities in the first quarter were $11.4 million (2019: cash outflows of $65 million) due to the $11.4 million for the semi-annual interest payment to ShaMaran bondholders in January 2020.

The 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. Management has applied significant judgment in preparing forecasts supporting the going concern assumption. Specifically, management has made assumptions regarding projected oil sale volumes and pricing, and the timing and extent of capital, operating, and general and administrative expenditures. Due to the current environment, with the global drop in the demand for oil, significant decline in world oil prices and the COVID-19 pandemic, the Company has assessed its oil and gas assets to determine if the carrying amounts may exceed their recoverable amounts. More detail on the impairment assessment can be found in the "Capital Expenditure" section above.

Under the terms of the Company's bond agreement it must, on or before July 5, 2020, reduce bonds outstanding by $15 million and, on July 5, 2020, pay the next semi-annual bond coupon interest payment of $11.4 million. The Company projects that its normal operations at current depressed oil prices will not generate enough cash to pay for these bond obligations when they come due. The global drop in the demand for oil and collapse in world oil prices has placed rapid and extraordinary downward pressure on the Company's gross margin and has strained the ability of the KRG to pay the Company for past purchases of higher priced oil resulting in further significant negative impacts to operational cash flows. Discussions are underway with the KRG as to the timing of payment of the $42 million owed for deliveries from November 2019 to February 2020; however, the Company does not expect to collect any of this past due amount within the next year. The Company has therefore retained advisors and engaged with stakeholders to examine options such as restructuring, recapitalization or other available alternatives to find a solution to address the imminent liquidity shortfall.

The potential that the Company's financial resources are insufficient to fund its debt service obligations and its development and production activities for the next 12 months indicates a material uncertainty which may cast significant doubt over the Company's ability to continue as a going concern. The interim consolidated financial statements do not include the adjustments that would result if the Company is unable to continue as a going concern.

Off Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Transactions with Related Parties

	Purchase of services in the three months ended March 31,		Amounts owing at the balance sheet dates	
	2020	2019	March 31, 2020	December 31, 2019
Namdo Management Services Ltd.	12	12	12	-

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.

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.

Outstanding Share Data, Share Units and Stock options

Common shares

The Company had 2,160,631,534 outstanding shares at March 31, 2020, 2,261,798,411 outstanding shares after dilution and at the date of this MD&A. The average outstanding shares during the first quarter of 2020 were 2,160,631,534 before dilution (year 2019: 2,160,505,507) and 2,261,798,411 after dilution (year 2019: 2,222,115,719).

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 March 3, 2020, the Company granted a total of 21,250,000 RSUs to certain senior officers and other eligible persons of the Company. The RSU grants were based on the grant date share price of CAD 0.06, vest over a period of three years and are redeemable in cash or shares of the Company up to five years after the grant date. The Statement of Comprehensive Income includes RSU related charges of $77 thousand (2019: nil) for the first three months of 2020 relating to vesting of 2020 and 2019 RSU grants.

On March 3, 2020, the Company granted a total of 4,466,665 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 0.06, 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. In 2019 a total of 3,600,265 DSUs were granted. The total DSU grants resulted in charges to the Statement of Comprehensive Income of $51 thousand for the first three months of 2020 (2019: nil). The carrying amount of the DSU liability at March 31, 2020 is $206 thousand. 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 are to be settled in cash thereafter.

There has been no further change in the number of share units outstanding from March 31, 2020, to the date of this MD&A.

Stock options

On March 3, 2020, the Company granted a total of 35,840,000 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 0.06 per share. In 2019 a total of 25,070,00 incentive stock options were granted. The result of all the option grants was a total charge to the Statement of Comprehensive Income of $588 thousand for the first three months of 2020 (2019: nil). In the same period 22,000,000 share options have expired.

At March 31, 2020 there were 60,910,000 stock options outstanding under the Company's employee incentive stock option plan. No stock options were exercised in the first quarter of 2020 (year 2019: nil).

The Company has no warrants outstanding.

Movements in the Company's outstanding options and share units in the period are explained as follows:

	Number of share options outstanding	Number of RSUs outstanding	Number of DSUs outstanding
At December 31, 2019	**47,070,000**	**11,660,000**	**2,880,212**
Granted in the period	35,840,000	21,250,000	4,466,665
Expired in the period	(22,000,000)	-	-
At March 31, 2020	**60,910,000**	**32,910,000**	**7,346,877**
Quantities vested:			
At December 31, 2019	30,356,662	-	2,880,212
At March 31, 2020	20,303,333	-	7,346,877

Contractual Obligations and Commitments

Atrush Block Production Sharing Contract

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

As at March 31, 2020, the outstanding commitments of the Company were as follows:

	For the year ended March 31,				
USD Thousands	2021	2022	2023	Thereafter	Total
Atrush Block development	20,027	166	166	1,656	22,015
Office and other	139	125	21	-	285
Total commitments	**20,166**	**291**	**187**	**1,656**	**22,300**

Amounts relating to Atrush Block development represent the Company's unfunded paying interest share of 27.6% of the approved 2020 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. The remaining production bonus payable is $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 at 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 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 independent evaluations of the Company's reserves and resource estimates since the report as at December 31, 2019 provided by McDaniel in February 2020.

Risks in estimating resources

There are 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 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 at Amortized Cost – Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. This includes the Company's loans and receivables which consist of fixed or determined cash flows related solely to principal and interest amounts or contractual sales of oil. The Company's intent is to hold these receivables until cash flows are collected. Financial assets at amortised cost are recognized initially at fair value, net of any transaction costs incurred and subsequently measured at amortized cost using the effective interest method. The Company recognizes a loss allowance for any expected credit losses on a financial asset that is measured at amortized cost.
- Financial Assets at Fair Value through Profit or Loss ("FVTPL") – Financial assets measured at FVTPL are assets which do not qualify as financial assets at amortized cost or at fair value through other comprehensive income. The Company does not currently have any financial assets measured at FVTPL.
- Financial Liabilities at Amortized Cost – Financial liabilities are measured at amortized cost using the effective interest method, unless they are required to be measured at FVTPL, or the Company has opted to measure them at FVTPL. Borrowings and accounts payable are recognized initially at fair value, net of any transaction costs incurred, and subsequently at amortized cost using the effective interest method.
- Financial Liabilities at FVTPL – Financial liabilities measured at FVTPL are liabilities which include embedded derivatives and cannot be classified as amortized cost. The Company does not currently have any financial liabilities measured at FVTPL.

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 through 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.

Under the terms of the Company's bond agreement it must, on or before July 5, 2020, reduce bonds outstanding by $15 million and, on July 5, 2020, pay the next semi-annual bond coupon interest payment of $11.4 million. The Company projects that its normal operations at current depressed oil prices will not generate enough cash to pay for these bond obligations when they come due. The global drop in the demand for oil and collapse in world oil prices has placed rapid and extraordinary downward pressure on the Company's gross margin and has strained the ability of the KRG to pay the Company for past purchases of higher priced oil resulting in further significant negative impacts to operational cash flows. Discussions are underway with the KRG as to the timing of payment of the $42 million owed for deliveries from November 2019 to February 2020; however, the Company does not expect to collect any of this past due amount within the next year. The Company has therefore retained advisors and engaged with stakeholders to examine options such as restructuring, recapitalization or other available alternatives to find a solution to address the imminent liquidity shortfall.

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 those listed below. If any of the risks described below materialise the effect on the Company's business, financial condition or operating results could be materially adverse.

For more information on risk factors which may affect the Company's business refer also to the discussion of risks under the "Reserves and Resources" and "Financial Instruments" sections of this MD&A above, as well as to the "Risk Factors" section of 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 August 12, 2020 its financial statements for the three and six months ended June 30, 2020.

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

Condensed Interim Consolidated Statement of Comprehensive Income (unaudited)

For the three months ended March 31,

Expressed in thousands of United States dollars	Note	For the three months ended March 31, 2020	2019
Revenues	5	**19,841**	**12,071**
Cost of goods sold:			
Lifting costs	6	(6,914)	(4,226)
Other costs of production	6	(3,722)	(680)
Depletion	6	(10,135)	(5,401)
Gross margin on oil sales		**(930)**	**1,764**
Depreciation and amortization expense		(49)	(2)
Share based payments expense	20	(716)	-
General and administrative expense	7	(1,876)	(1,580)
Impairment loss	11,12	(116,164)	-
(Loss)/income from operating activities		**(119,735)**	**182**
Finance income	8	34	408
Finance cost	9	(5,479)	(9,067)
Net finance cost		**(5,445)**	**(8,659)**
Loss before income tax expense		**(125,180)**	**(8,477)**
Income tax expense	10	(31)	(18)
Loss for the period		**(125,211)**	**(8,495)**
Other comprehensive income			
Items that may be reclassified to profit or loss:			
Currency translation differences		(18)	(3)
Total other comprehensive income		**(18)**	**(3)**
Total comprehensive loss for the period		**(125,229)**	**(8,498)**
(Loss) / income in dollars per share:			
Basic and diluted		(0.060)	-

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

Condensed Interim Consolidated Balance Sheet (unaudited)

As at March 31, 2020 and December 31, 2019

Expressed in thousands of United States dollars	Note	March 31, 2020	December 31, 2019
ASSETS			
Non-current assets			
Property, plant and equipment	*11*	152,500	207,903
Intangible assets	*12*	34	67,649
Loans and receivables	*14*	68,364	21,386
Right-of-use asset	*13*	277	309
		221,175	**297,247**
Current assets			
Loans and receivables	*14*	14,646	55,931
Cash and cash equivalents, unrestricted		4,596	15,480
Other current assets	*15*	296	307
Cash and cash equivalents, restricted		50	50
		19,588	**71,768**
TOTAL ASSETS		**240,763**	**369,015**
LIABILITIES			
Non-current liabilities			
Provisions	*18*	15,304	15,715
Pension liability		969	969
Cash-settled deferred share units	20	206	155
Lease liability	13	140	171
Borrowings	*17*	-	174,546
		16,619	**191,556**
Current liabilities			
Borrowings	*17*	189,578	15,000
Accounts payable and accrued expenses	*16*	11,373	9,002
Accrued interest expense on bonds	*17*	5,447	11,147
Lease liability	*13*	129	132
Current tax liabilities		45	42
		206,572	**35,323**
EQUITY			
Share capital	*19*	637,688	637,688
Share based payments reserve		7,906	7,241
Cumulative translation adjustment		(1)	17
Accumulated deficit		(628,021)	(502,810)
		17,572	**142,136**
TOTAL EQUITY AND LIABILITIES		**240,763**	**369,015**

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/Chris Bruijnzeels
Chris Bruijnzeels, Director

Condensed Interim Consolidated Statement of Cash Flow (unaudited)

For the three months ended March 31,

Expressed in thousands of United States dollars	Note	For the three months ended March 31, 2020	2019
Operating activities			
Loss for the period		**(125,211)**	**(8,495)**
Adjustments for:			
Impairment loss	*11,12*	116,164	-
Depreciation, depletion and amortization expense		10,184	5,403
Borrowing costs – net of amount capitalized		5,486	9,057
Share based payment expense	*20*	716	-
Interest income	*8*	(2)	(403)
Unwinding discount on decommissioning provision		(9)	10
Foreign exchange gain	*8*	(32)	(5)
Changes in other current assets		11	21
Changes in current tax liabilities		3	6
Changes in accounts payable and accrued expenses		2,371	1,056
Changes in accounts receivables on Atrush oil sales		(7,820)	2,460
Net cash inflows from operating activities		**1,861**	**9,110**
Investing activities			
Loans and receivables – payments received		2,127	4,650
Interest received on cash deposits	*8*	2	216
(Purchases) / Credits of intangible assets		(5)	209
Purchase of property, plant and equipment		(3,450)	(3,820)
Net cash (outflows to) / inflows from investing activities		**(1,326)**	**1,255**
Financing activities			
Bonds retired	*17*	-	(50,000)
Principal element of lease payments		(34)	-
Payments to bondholders - interest	*17*	(11,400)	(14,950)
Net cash outflows to financing activities		**(11,434)**	**(64,950)**
Effect of exchange rate changes on cash and cash equivalents		15	(10)
Change in cash and cash equivalents		**(10,884)**	**(54,595)**
Cash and cash equivalents, beginning of the year		15,530	92,470
Cash and cash equivalents, end of the period*		**4,646**	**37,875**
***Inclusive of restricted cash**		**50**	**53**

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

Condensed Interim Consolidated Statement of Changes in Equity (unaudited)

For the three months ended March 31,

Expressed in thousands of United States dollars	Share capital	Share based payments reserve	Cumulative translation adjustment	Accumulated deficit	Total
Balance at January 1, 2019	**637,538**	**6,495**	**(12)**	**(489,822)**	**154,199**
Total comprehensive (loss) / income for the period:					
Loss for the period	-	-	-	(8,495)	(8,495)
Other comprehensive income	-	-	(3)	-	(3)
Transactions with owners in their capacity as owners:					
Bond transaction costs	150	-	-	-	150
	150	-	(3)	(8,495)	(8,348)
Balance at March 31, 2019	**637,688**	**6,495**	**(15)**	**(498,317)**	**145,851**
Balance at December 31, 2019	**637,688**	**7,241**	**17**	**(502,810)**	**142,136**
Total comprehensive (loss) / income for the period:					
Loss for the period	-	-	-	(125,211)	(125,211)
Other comprehensive loss	-	-	(18)	-	(18)
Transactions with owners in their capacity as owners:					
Share based payments expense (excluding DSU)	-	665	-	-	665
	-	665	(18)	(125,211)	(124,564)
Balance at March 31, 2020	**637,688**	**7,906**	**(1)**	**(628,021)**	**17,572**

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 and oil production on the Atrush Block commenced in July 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 International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and the IFRS Interpretations Committee. The policies applied in these consolidated financial statements are based on IFRS which were outstanding and effective as of May 8, 2020, 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, 2019.

b. Going concern

These condensed interim consolidated financial statements have been prepared on the going concern basis which assumes that the Company will be able to realise into the foreseeable future its assets and liabilities in the normal course of business as they come due. Management has applied significant judgment in preparing forecasts supporting the going concern assumption. Specifically, management has made assumptions regarding projected oil sale volumes and pricing, and the timing and extent of capital, operating, and general and administrative expenditures. Due to the current environment, with the global drop in the demand for oil, the significant decline in oil prices and the COVID-19 pandemic, the Company has assessed its oil and gas assets to determine if the carrying amounts may exceed their recoverable amounts. Refer to Notes 11 and 12 for additional information on the impairment assessment.

Under the terms of the Company’s bond agreement it must, on or before July 5, 2020, reduce bonds outstanding by $15 million and, on July 5, 2020, pay the next semi-annual bond coupon interest payment of $11.4 million. The Company projects that its normal operations at current depressed oil prices will not generate enough cash to pay for these bond obligations when they come due. The global drop in the demand for oil and collapse in world oil prices has placed rapid and extraordinary downward pressure on the Company’s gross margin and has strained the ability of the Kurdistan Regional Government’s (“KRG”) to pay the Company for past purchases of higher priced oil resulting in further significant negative impacts to operational cash flows. Discussions are underway with the KRG as to the timing of payment of the $42 million owed for deliveries from November 2019 to February 2020; however, the Company does not expect to collect any of this past due amount within the next year. Accordingly, the Company is reviewing its strategic and financial options to address this risk and be able to meet its funding obligations. The Company has therefore retained advisors and engaged with stakeholders to examine options such as restructuring, recapitalization or other available alternatives to find a solution to address the imminent liquidity shortfall.

The potential that the Company's financial resources are insufficient to fund its debt service obligations and its development and production activities for the next 12 months indicates a material uncertainty which may cast significant doubt over the Company's ability to continue as a going concern. These interim consolidated financial statements do not include the adjustments that would result if the Company is unable to continue as a going concern.

Refer also to Notes 11, 12, 17 and 21.

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, 2019.

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, 2019. Other factors have also been considered for the quarter ended March 31, 2020 due to the current environment.

Refer to note 2b for additional information.

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. Revenues

Revenues relate entirely to the Company's entitlement share of oil from Atrush sold to the KRG during the year to date. The Company held a 20.1% interest in Atrush up to May 30, 2019 when the Company increased its interest to 27.6%. 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 three months of 2020 were 4.2MMbbls (2019: 2.4MMbbls) and the Company's entitlement share was approximately 0.6MMbbls (2019: 0.3MMbbls) which were sold with an average netback price of $35.21 per barrel (2019: $47.76). 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.

Refer also to Note 14.

6. 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. The increase in 2020 quarter one lifting costs over the amount in the same period of 2019 was due to higher production volumes and a higher working interest in Atrush. 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. A production bonus of $3.7 million was incurred in the first quarter of 2020 (2019 nil).

Expressed in thousands of United States dollars

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 Notes 5 and 11.

7. General and administrative expense

General and administrative expenses principally include the Company's cost of technical and administrative personnel, travel, office, business development and stock exchange listing and regulatory related costs. The higher general and administrative expense incurred in the first quarter 2020 compared to the same period of 2019 was principally due to higher costs related to value-added initiatives to streamline and strengthen the Company's core business technical capacity, corporate structure and business development function resulting in added management and consulting fees. The Company also incurred additional costs related to strengthening the number of staff in the Company's Swiss service office since quarter one of 2019 and benefits relating to the Company's short-term incentive plan.

8. Finance income

	For the three months ended March 31,	
	2020	**2019**
Interest on deposits	2	216
Interest on Atrush Development Cost Loan	-	113
Interest on Atrush Feeder Pipeline Cost Loan	-	74
Total interest income	**2**	**403**
Foreign exchange gain	32	5
Total finance income	**34**	**408**

Both the Atrush Development Cost Loan and the Atrush Feeder Pipeline Cost Loan were fully repaid in 2019.

9. Finance cost

	For the three months ended March 31,	
	2020	**2019**
Interest charges on bonds at coupon rate	5,700	6,317
Amortization of bond transaction costs	32	750
Re-measurement of bond debt	-	2,131
Total borrowing costs	**5,732**	**9,198**
Lease – interest expense	2	-
Unwinding discount on decommissioning provision	(9)	10
Total finance costs before borrowing costs capitalized	**5,725**	**9,208**
Borrowing costs capitalized	(246)	(141)
Finance cost	**5,479**	**9,067**

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.

Refer also to Notes 13, 17 and 18.

Expressed in thousands of United States dollars

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 the Company's independent qualified reserves evaluator, McDaniel & Associates Consultants Ltd. ("McDaniel"), less the cumulative depletion costs corresponding to commercial production. During the first three months of 2020 movements in PP&E were comprised of additions of $3.3 million (2019: $37.7 million), which included capitalized borrowing costs of $246 thousand (2019: $1.0 million), net of depletion of $10.1 million] (2019: $25.7 million) and an impairment of $48.6 million (2019: nil) which resulted in a net decrease to PP&E assets of $55.4 million.

Due to a significant decline in world oil prices in the first quarter of 2020 the Company has conducted an impairment test to assess if the net book value of its oil and gas assets is recoverable. The impairment test is based on McDaniel's production and cost profiles related to proved and probable reserves and uses oil price forecasts as of March 31, 2020, a recently revised 2020 operating budget, a future cost inflation factor of 2% per annum and a discount rate of 15.5% to calculate the net present value at March 31, 2020 of the Company's projected share of future cash flows of the Atrush 2P reserves, and is weighted with additional business continuity risk to determine a recoverable value of $152.5 million. Therefore, a non-cash impairment loss of the Company's PP&E assets has been recognized in the amount of $48.6 million and included in the statement of comprehensive income for the quarter ended March 31, 2020.

The average Brent oil price assumptions used for the impairment at March 31, 2020, were based on a McDaniel forecast for the next four years and thereafter prices are inflated by 2% per year:

Year	2020	2021	2022	2023
Forecast $/bbl	35.50	46.41	55.14	61.55

A sensitivity analysis shows that a $5/bbl decrease in the oil price would increase the impairment loss by $19 million whereas a $5/bbl increase in the oil price would decrease the impairment loss by $15.5 million. Using a 1% increase in the discount rate used to calculate the net present value would increase the impairment loss by $3.9 million while a 1% decrease in the discount rate would decrease the impairment loss by $3.7 million. If expectations with regard to timing of cash flows are not met it could also result in additional impairment losses. If expectations with regard to timing of cash flows are not met it could also result in additional impairment losses.

Refer also to Notes 2b, 6, 12 and 24.

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.

Due to a significant decline in world oil prices in the first quarter of 2020 the Company has conducted an impairment test to assess if the net book value of its E&E assets is recoverable. The impairment test is based on management's production and cost profiles related to the Atrush contingent oil resources ("2C") and uses oil price forecasts as of March 31, 2020, a recently revised 2020 operating budget, a future cost inflation factor of 2% per annum and a discount rate of 15.5% to calculate the net present value at March 31, 2020 of the Company's projected share of future cash flows of the Atrush 2C resources, and is weighted with additional business continuity risk to determine a nil recoverable value. Therefore, a non-cash impairment loss of the Company's E&E assets has been recognized in the amount of $67.6 million and included in the statement of comprehensive income for the quarter ended March 31, 2020.

Expressed in thousands of United States dollars

The average Brent oil price assumptions used for the impairment assessment were consistent with the McDaniel forecast provided in Note 11.

A sensitivity analysis shows that a $5/bbl increase in the oil price would not result in a reduction to the impairment loss nor would a 1% decrease in the discount rate. Refer also to Notes 2b, 11 and 24.

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 services office in Vésenaz, Switzerland. At March 31, 2020, the balance sheet shows a value of $277 thousand for the right-of-use asset, $384 thousand initial value less $107 thousand cumulative depreciation, and a lease liability value of $269 thousand, $129 thousand as a current liability and $140 thousand as a non-current liability. The income statement in the three months ended March 31, 2020, includes the depreciation charge of the right-of-use asset of $32 thousand plus an interest expense of $2 thousand included in the finance cost. For the three months ended March 31, 2019 there were no leases.

Refer also to Note 9.

14. Loans and receivables

The Company was owed amounts for its entitlement share of oil deliveries made to the KRG during the last six months. At March 31, 2020, the Company had loans and receivables outstanding as follows:

	At March 31, 2020	At December 31, 2019
Accounts receivable on Atrush oil sales	43,355	35,535
Atrush Exploration Costs receivable	39,655	41,782
Total loans and receivables	**83,010**	**77,317**
Current portion	14,646	55,931
Non-current portion	68,364	21,386

Discussions are underway with the KRG as to the timing of payment $41.7 million owed to the Company for $34 million of deliveries from November 2019 to February 2020 and an additional $7.7 million of Atrush Exploration Costs receivable invoiced over the same period; however, the Company does not expect to collect any of this past due amount in the next year and therefore this amount is included in the non-current portion.

Refer also to Notes 2b and 5.

15. Other current assets

	At March 31, 2020	At December 31, 2019
Prepaid expenses	198	229
Other receivables	98	78
Total other current assets	**296**	**307**

16. Accounts payable and accrued expenses

	At March 31, 2020	At December 31, 2019
Payables to joint operations partner	6,043	6,828
Production bonus payable	3,680	-
Accrued expenses	998	1,511
Trade payables	652	663
Total accounts payable and accrued expenses	**11,373**	**9,002**

Expressed in thousands of United States dollars

17. Borrowings

The ShaMaran bonds have a five-year maturity without amortization and carry 12% fixed semi-annual coupon and mature on July 5, 2023. The Company paid $11.4 million in cash for interest payments to the bondholders on January 5, 2020. At March 31, 2020, there were $190 million of ShaMaran Bonds outstanding.

Under the terms of the bond agreement the Company is required to maintain a 30% Equity Ratio, defined as total equity divided by total assets. As the ShaMaran's Equity Ratio is 7.3% the Company is in breach of this Bond covenant. The bond agreement provides for up to 20 days to secure a remedy. Accordingly, the entire borrowing cost is presented as a current liability. Further, the Company does not expect to have sufficient liquidity to pay its bond obligations coming due on July 5, 2020. ShaMaran is required to reduce its bonds outstanding by $15 million on or before July 5, 2020 and on the same day to pay $11.4 million of semi-annual annual coupon interest to bondholders. The Company is exploring several different options for addressing these issues as follows:

- the bond trustee has been informed of the breach in covenants and the Company will be engaging with bondholders regarding a potential solution; and
- The Company has engaged SB1M as its financial advisor to assist with a potential solution.

The movements in borrowings are explained as follows:

	3 months ended March 31, 2020	12 months ended December 31, 2019
Opening balance	**200,693**	**250,797**
Interest charges at coupon rate	5,700	23,417
Amortization of bond transaction costs	32	848
Re-measurement of bond debt	-	2,131
Bond transaction costs	-	(150)
Bonds retired	-	(50,000)
Payments to Bondholders – interest and call premiums	(11,400)	(26,350)
Ending balance	**195,025**	**200,693**
Current portion: borrowings	189,578	15,000
Current portion: accrued bond interest expense	5,447	11,147
Non-current portion: borrowings	-	174,546

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 until July 2020 when ShaMaran Bonds outstanding will be reduced to $175 million following the completion by the Company of its obligation to pay down $15 million of bonds, identified as a current liability on the balance sheet, are as follows:

Less than one year	36,900
From one to two years	42,000
From three to four years	185,500
Total	**264,400**

Refer also to Notes 9 and 21.

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.

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 December 1, 2019	**2,158,631,534**	**637,538**
Bond transaction cost	2,000,000	150
At December31, 2019	**2,160,631,534**	**637,688**
At March 31, 2020	**2,160,631,534**	**637,688**

20. Share based payments expense

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; however, 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.

Movements in the Company's outstanding options and share units in the period are explained as follows:

	Number of share options outstanding	Number of RSUs outstanding	Number of DSUs outstanding
At December 31, 2019	**47,070,000**	**11,660,000**	**2,880,212**
Granted in the period	35,840,000	21,250,000	4,466,665
Expired in the period	(22,000,000)	-	-
At March 31, 2020	**60,910,000**	**32,910,000**	**7,346,877**
Quantities vested:			
At December 31, 2019	30,356,662	-	2,880,212
At March 31, 2020	20,303,333	-	7,346,877

On March 3, 2020, the Company granted a total of 35,840,000 stock options and 21,250,000 RSUs 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 0.06 per share. In 2019 a total of 25,070,00 incentive stock options were granted. The result of all the option grants was a total charge to the Statement of Comprehensive Income of $588 thousand for the first three months of 2020 (2019: nil). The RSU grants were based on the grant date share price of CAD 0.06, vest over a period of three years and are redeemable in cash or shares of the Company up to five years after the grant date. The Statement of Comprehensive Income includes RSU related charges of $77 thousand (2019: nil) for the first three months of 2020 relating to vesting of 2020 and 2019 RSU grants.

Expressed in thousands of United States dollars

On March 3, 2020, the Company granted a total of 4,466,665 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 0.06, 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. In 2019 a total of 3,600,265 DSUs were granted. The total DSU grants resulted in charges to the Statement of Comprehensive Income of $51 thousand for the first three months of 2020 (2019: nil). The carrying amount of the DSU liability at March 31, 2020 is $206 thousand. 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 are to be settled in cash thereafter.

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 March 31, 2020	At December 31, 2019
Loans and receivables [2]	43,355	35,535
Cash and cash equivalents, unrestricted [2]	4,596	15,480
Other receivables [2]	98	78
Cash and cash equivalents, restricted [2]	50	50
Total financial assets	**48,099**	**51,143**

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

Financial liabilities

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

	Fair value hierarchy [4]	Carrying values	
		At March 31, 2020	At December 31, 2019
Borrowings [3]	Level 2	189,578	189,546
Accounts payable and accrued expenses [2]		11,373	9,002
Accrued interest on bonds		5,447	11,147
Current tax liabilities		45	42
Total financial liabilities		**206,443**	**209,737**

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 Company estimates the fair value of its borrowings at the balance sheet date is $104 million (December 31, 2019: $190 million) based on recent low volume trades of the Company's bonds weighted with additional business continuity risk.

[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 March 31, 2020 the outstanding commitments of the Company were as follows:

	For the year ended March 31,				
	2021	2022	2023	Thereafter	Total
Atrush Block development and PSC	20,027	166	166	1,656	22,015
Office and other	139	125	21	-	285
Total commitments	**20,166**	**291**	**187**	**1,656**	**22,300**

Amounts relating to Atrush Block development represent the Company's unfunded paying interest share of the approved 2020 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. The remaining production bonus payable is $23.3 million at 50 million barrels (ShaMaran share: $6.43 million). The production bonuses represent an outflow of Company resources as an economic benefit to the KRG, rather than as an exchange for a service, and are therefore accounted for in accordance with IFRIC 21 Levies which requires that the obligation be recognized on the date at which the production milestone is reached.

Refer also to Note 17.

23. Related party transactions

Transactions with corporate entities

	Purchase of services in the three months ended March 31,		Amounts owing at the balance sheet dates	
	2020	2019	March 31, 2020	December 31, 2019
Namdo Management Services Ltd.	12	12	12	-

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.

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.

24. Events after the reporting period

The Company projects that its normal operations at current depressed oil prices will not generate enough cash to pay for $26.4 million of bond obligations when they come due on or before July 5, 2020. The global drop in the demand for oil and collapse in world oil prices has placed rapid and extraordinary downward pressure on the Company's gross margin and has strained the ability of the KRG to pay the Company for past purchases of higher priced oil resulting in further significant negative impacts to operational cash flows. Discussions are underway with the KRG as to the timing of payment of the $42 million owed for deliveries from November 2019 to February 2020; however, the Company does not expect to collect any of this past due amount in the next year. The Company has therefore retained advisors and engaged with stakeholders to examine options such as restructuring, recapitalization, or other available alternatives to find a solution to address the imminent liquidity shortfall. The outcome of an eventual solution could result in significant additional impairment to the assets of the Company. Refer to the discussion in Notes 11 and 12.

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STOCK EXCHANGE LISTINGS

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

ShaMaran Petroleum Corp.