



## NEWS RELEASE

March 9, 2017 – 11:30 AM PT

### SHAMARAN 2016 YEAR END FINANCIAL AND OPERATING RESULTS

Vancouver, British Columbia

**ShaMaran Petroleum Corp.** ("ShaMaran" or the "Company") (**TSX VENTURE: SNM**) (**OMX: SNM**) is pleased to announce its financial and operating results for year ended December 31, 2016. Unless otherwise stated all currency amounts indicated as "\$" in this news release are expressed in thousands of United States dollars.

#### Highlights and accomplishments included:

- Construction of the 30,000 bopd Atrush Phase 1 Production Facility is complete and final commissioning is in progress.
- Four production wells are now completed, connected to the Production Facility and ready for start-up.
- Work on the Spur Pipeline being constructed between the Production Facility and the Atrush block boundary and construction of the pump station and the intermediate pigging and pressure reduction station is substantially complete.
- Work has commenced on the 35km Feeder Pipeline between the Atrush block boundary and the main export pipeline in Kurdistan and completion is expected in the second quarter of 2017.
- On November 7, 2016 the 4<sup>th</sup> PSC Amendment and Atrush Facilitation Agreement were concluded between the Non-Government Contractors and the Kurdistan Regional Government ("KRG") resulting in, among other things, the KRG acquiring a 25% participating interest in the Atrush PSC and in a 20.1% interest for General Exploration Partners, Inc. (a wholly owned subsidiary of the Company). These agreements also include terms for repayment of costs paid for on behalf of the KRG, including those relating to the Feeder Pipeline.
- In January 2017 the Company completed the issue of 360 million common shares of ShaMaran on a private placement basis at a price per share of CAD 0.10 (equal to SEK 0.67) which resulted in gross proceeds to the Company of \$27.3 million (\$26.4 million net of transaction related costs).

- In early May 2016 the Company completed a financing arrangement which has provided the Company with additional liquidity in 2016 of approximately \$33 million due to the issuance of \$17 million of new super senior bonds, the conversion of \$18 million of existing senior bonds into 218,863,000 ShaMaran common shares, and providing terms for the Company to pay future bond coupon interest in kind by issuing additional bonds.
- In February 2016 the Company reported on a property gross basis estimates as at December 31, 2016 of 85.1 MMbbl of Total Field Proven plus Probable (“2P”) Reserves and 389 MMboe Total Field Unrisked Best Estimate Discovered Recoverable Resources (“2P + 2C”) <sup>1</sup> <sup>2</sup>. Reserves and resources are unchanged from prior year estimates.

Chris Bruijnzeels, President and CEO of ShaMaran, commented *“We are pleased to see the light at the end of the tunnel. Our production facilities are ready, the producing wells are connected and the pipeline project is progressing. We are expecting first oil in Q2 2017.”*

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<sup>1</sup> “MMbbl” means million barrels and “MMboe” means million barrels of oil equivalents. Boe may be misleading, particularly if used in isolation. A boe conversion ratio of 6 million cubic feet (“Mcf”) per one barrel is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

<sup>2</sup> 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.

## FINANCIAL AND OPERATING RESULTS FOR THE YEAR ENDED DECEMBER 31, 2016

During the reporting period the Company continued with the first phase of the development program in respect of the Atrush petroleum property located in the Kurdistan Region of Iraq which constitutes the continuing operations of the Company. Atrush currently generates no revenues.

### Financial Results

The Company reports a net loss of \$9.2 million in the year ended December 31, 2016 which was primarily driven by routine general and administrative expenses, share based payment expenses and finance cost, the substantial portion of which was expensed borrowing costs on the Company's bonds. These charges have been offset by service fee revenues, interest income on Atrush cost loans and interest on cash held in short term deposits.

### Condensed Interim Statement of Comprehensive Income

(Audited, expressed in thousands of United States Dollars)

	For the year ended December 31,	
	2016	2015
<b>Continuing Operations</b>		
<b>Income</b>		
Service fees	120	-
<b>Expenses</b>		
Impairment loss	-	(244,557)
Depreciation and amortisation expense	(45)	(56)
Share based payments expense	(249)	(1,210)
General and administrative expense	(3,811)	(2,359)
<b>Loss before finance items and income tax expense</b>	<b>(4,105)</b>	<b>(248,182)</b>
Finance income	484	681
Finance cost	(5,586)	(5,321)
<b>Net finance cost</b>	<b>(5,102)</b>	<b>(4,640)</b>
<b>Loss before income tax expense</b>	<b>(9,087)</b>	<b>(252,822)</b>
Income tax expense	(69)	(94)
<b>Loss from continuing operations</b>	<b>(9,156)</b>	<b>(252,916)</b>
<b>Discontinued operations</b>		
Net gain from discontinued operations	-	33
<b>Loss for the year</b>	<b>(9,156)</b>	<b>(252,883)</b>
<b>Other comprehensive income</b>		
<i>Items that may be reclassified to profit or loss:</i>		
Currency translation differences	22	(18)
Actuarial gain on defined pension plan	15	-
<b>Total other comprehensive income / (loss)</b>	<b>37</b>	<b>(18)</b>
<b>Total comprehensive loss for the year</b>	<b>(9,119)</b>	<b>(252,901)</b>

**Condensed Interim Consolidated Balance Sheet**  
*(Audited, expressed in thousands of United States Dollars)*

	As at December 31,	
	2016	2015
<b>Assets</b>		
<b>Non-current assets</b>		
Property, plant and equipment	174,658	177,044
Intangible assets	89,007	88,645
Loans and receivables	46,114	-
	<b>309,779</b>	<b>265,689</b>
<b>Current assets</b>		
Loans and receivables	7,252	-
Cash and cash equivalents, unrestricted	4,416	30,409
Cash and cash equivalents, restricted	-	1,512
Other current assets	224	200
	<b>11,892</b>	<b>32,121</b>
<b>Total assets</b>	<b>321,671</b>	<b>297,810</b>
<b>Liabilities and equity</b>		
<b>Current liabilities</b>		
Accounts payable and accrued expenses	6,434	9,560
Accrued interest expense on bonds	2,503	2,252
Current tax liabilities	-	31
	<b>8,937</b>	<b>11,843</b>
<b>Non-current liabilities</b>		
Borrowings	165,129	148,263
Provisions	8,869	8,080
Pension liability	1,670	-
	<b>175,668</b>	<b>156,343</b>
<b>Total liabilities</b>	<b>184,605</b>	<b>168,186</b>
<b>Equity</b>		
Share capital	611,179	593,179
Share based payments reserve	6,484	6,235
Cumulative translation adjustment	(61)	(83)
Accumulated deficit	(480,536)	(469,707)
<b>Total equity</b>	<b>137,066</b>	<b>129,624</b>
<b>Total liabilities and equity</b>	<b>321,671</b>	<b>297,810</b>

Total assets increased during the year 2016 by \$23.9 million as a result of increases in share capital and equity reserves by \$18.2 million, borrowings by \$16.9 million and other non-current liabilities by \$2.5 million which were offset by an increase in the accumulated deficit by \$10.8 million, principally due to the net loss recorded in the period, and a decrease in current liabilities by \$2.9 million.

Property, plant & equipment assets decreased during the year 2016 by \$2.4 million which was due to addition of \$32.7 million in Atrush development costs and \$13.1 million in capitalised borrowing and transfers out of a total of \$48.2 million to loans and receivables relating to the Atrush Exploration Costs receivable and Atrush Development Cost Loan. The increase in intangible assets by \$0.4 million during 2016 is due to \$0.1 million of Atrush exploration costs and capitalised borrowing costs of \$0.3 million incurred in the year.

**Condensed Interim Consolidated Cash Flow Statement**  
*(Audited, expressed in thousands of United States Dollars)*

	<b>For the year ended December 31,</b>	
	<b>2016</b>	<b>2015</b>
<b>Operating activities</b>		
Net loss from continuing operations	(9,156)	(252,916)
Adjustments for:		
Interest expense on borrowings – net	5,518	5,285
Share based payments expense	249	1,210
Unwinding discount on decommissioning provision	68	36
Depreciation and amortisation expense	45	56
Actuarial gain on pension plan	15	-
Foreign exchange gain	-	(492)
Impairment loss	-	244,557
Interest income	(484)	(189)
Change in pension liability	(18)	-
Changes in other current assets	(24)	1,405
Changes in current tax liabilities	(31)	(10)
Changes in accounts payable and accrued expenses	(3,126)	(2,147)
Cash used in discontinued operations	-	(18)
<b>Net cash outflows to operating activities</b>	<b>(6,944)</b>	<b>(3,223)</b>
<b>Investing activities</b>		
Interest received on cash deposits	44	189
Purchases of intangible assets	(7)	(60,271)
Loans and receivables – advances to joint venture partner	(4,769)	-
Purchase of property, plant and equipment	(32,073)	(4,311)
<b>Net cash outflows to investing activities</b>	<b>(36,805)</b>	<b>(64,393)</b>
<b>Financing activities</b>		
Proceeds on bond issue	17,000	-
Bond transaction costs	(777)	-
Shares issued on Rights Offering	-	60,462
Transaction costs on Rights Offering	-	(1,351)
Interest payments to bondholders	-	(17,250)
<b>Net cash inflows from financing activities</b>	<b>16,223</b>	<b>41,861</b>
Effect of exchange rate changes on cash and cash equivalents	21	472
<b>Change in cash and cash equivalents</b>	<b>(27,505)</b>	<b>(25,283)</b>
Cash and cash equivalents, beginning of the year	31,921	57,204
<b>Cash and cash equivalents, end of the year</b>	<b>4,416</b>	<b>31,921</b>

The decrease by \$27.5 million in the cash position of the Company during the year 2016 was due to cash outflows of \$32.1 million on Atrush Block development activities, \$4.8 million of financing provided to a joint venture partner, \$3.6 million of cash out on G&A and other cash expenses and \$3.2 million of negative cash adjustments from changes in working capital items which were offset by \$16.2 million of net proceeds on the issue of Super Senior Bonds.

## **ATRUSH OUTLOOK**

### *Production Facility*

Plans for 2017 include the engineering and design of gas sweetening facilities, the installation of water handling facilities and the installation of 100,000 bbls of oil storage capacity.

It is also planned to conduct extended testing of the CK-6 well and possibly the AT-3 well, both of which are located on the eastern side of the Atrush Block. This would involve the installation of temporary production facilities near the Chamanke–C well pad and the delivery by truck of oil to the main Phase I Production Facilities.

### *Oil Export Pipeline*

Completion of the Feeder Pipeline is expected in the second quarter of 2017. Production is planned to begin after the Feeder Pipeline is commissioned.

### *Wells*

Plans in 2017 are to drill and test CK-7, an appraisal and development well located in the central area of the Atrush Block, and CK-9, a dedicated water disposal well.

This information in this release is subject to the disclosure requirements of ShaMaran Petroleum Corp. under the EU Market Abuse Regulation and the Swedish Securities Market Act. This information was publicly communicated on March 9, 2017 at 11:30 a.m. Pacific Time.

## **ANNUAL GENERAL MEETING**

The Company also announces that the Annual General Meeting of Shareholders will be held on Thursday, June 15, 2017, at 8:00 a.m. (Vancouver time) at Suite 2000, 885 West Georgia Street, Vancouver, British Columbia, V6C 3E8.

## **ABOUT SHAMARAN**

ShaMaran Petroleum Corp. is a Kurdistan focused oil development and exploration company with a 20.1% direct interest in the Atrush oil discovery. The Atrush Block is currently undergoing an appraisal and development campaign.

ShaMaran is a Canadian oil and gas company listed on the TSX Venture Exchange and the NASDAQ First North Exchange (Stockholm) under the symbol "SNM". Neither the TSX Venture Exchange nor its Regulation Services Provider (as that term is defined in the policies of the TSX Venture Exchange) accepts responsibility for the adequacy or accuracy of this release. Pareto Securities AB is the Company's Certified Advisor on NASDAQ First North.

The Company's audited consolidated financial statements, notes to the financial statements and management's discussion and analysis have been filed on SEDAR ([www.sedar.com](http://www.sedar.com)) and are also available on the Company's website ([www.shamaranpetroleum.com](http://www.shamaranpetroleum.com)).

## **FORWARD LOOKING STATEMENTS**

*This news release contains statements and information about expected or anticipated future events and financial results that are forward-looking in nature and, as a result, are subject to certain risks and uncertainties, such as legal and political risk, civil unrest, general economic, market and business conditions, the regulatory process and actions, technical issues, new legislation, competitive and general economic factors and conditions, the uncertainties resulting from potential delays or changes in plans, the occurrence of unexpected events and management's capacity to execute and implement its future plans. Any statements that are contained in this news release that are not statements of historical fact may be deemed to be forward-looking information. Forward-looking information typically contains statements with words such as "may", "will", "should", "expect", "intend", "plan", "anticipate", "believe", "estimate", "projects", "potential", "scheduled", "forecast", "outlook", "budget" or the negative of those terms or similar words suggesting future outcomes. The Company cautions readers regarding the reliance placed by them on forward-looking information as by its nature, it is based on current expectations regarding future events that involve a number of assumptions, inherent risks and uncertainties, which could cause actual results to differ materially from those anticipated by the Company.*

*Actual results may differ materially from those projected by management. Further, any forward-looking information is made only as of a certain date and the Company undertakes no obligation to update any forward-looking information or statements to reflect events or circumstances after the date on which such statement is made or reflect the occurrence of unanticipated events, except as may be required by applicable securities laws. New factors emerge from time to time, and it is not possible for management of the Company to predict all of these factors and to assess in advance the impact of each such factor on the Company's business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking information.*

**Reserves and resources:** *Shamaran Petroleum Corp.'s reserve and contingent resource estimates are as at December 31, 2016, and have been prepared and audited in accordance with National Instrument 51-101 Standards of Disclosure for Oil and Gas Activities ("NI 51-101") and the Canadian Oil and Gas Evaluation Handbook ("COGE Handbook"). Unless otherwise stated, all reserves estimates contained herein are the aggregate of "proved reserves" and "probable reserves", together also known as "2P reserves". Possible reserves are those additional reserves that are less certain to be recovered than probable reserves. There is a 10% probability that the quantities actually recovered will equal or exceed the sum of proved plus probable plus possible reserves.*

**Contingent resources:** *Contingent resources are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations using established technology or technology under development, but are not currently considered to be commercially recoverable due to one or more contingencies. Contingencies may include factors such as economic, legal, environmental, political and regulatory matters or a lack of markets. There is no certainty that it will be commercially viable for the Company to produce any portion of the contingent resources.*

**BOEs:** *BOEs may be misleading, particularly if used in isolation. A BOE conversion ratio of 6 Mcf per 1 Bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.*

**FOR FURTHER INFORMATION PLEASE CONTACT:**

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**Shamaran Petroleum Corp.**  
**Annual Report**  
**For the year ended December 31, 2016**

**SHAMARAN PETROLEUM CORP.**  
**MANAGEMENT DISCUSSION AND ANALYSIS**

**For the year ended December 31, 2016**

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Management's discussion and analysis ("MD&A") of the financial and operating results of ShaMaran Petroleum Corp. (together with its subsidiaries, "ShaMaran" or the "Company") is prepared with an effective date of March 9, 2017. The MD&A should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2016 together with the accompanying notes.

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

## **OVERVIEW**

ShaMaran Petroleum Corp. is an oil development and exploration company with a 20.1% direct interest in the Atrush Block production sharing contract ("Atrush PSC") relating to a property located in the Kurdistan Region of Iraq ("Kurdistan"). Atrush is currently in the first phase of the development program ("Phase 1"). Phase 1 of field development consists of installing and commissioning production facilities with 30,000 barrels of oil per day ("bopd") capacity and the drilling and completion of five production wells to supply the production facility. First oil production is expected to start in the second quarter of 2017.

The oil discovery on the Atrush petroleum property is continuously being appraised. Further phases of development will be defined based on production data, appraisal information and economic circumstances.

ShaMaran is a Canadian oil and gas company listed on the TSX Venture Exchange and the NASDAQ First North Exchange (Stockholm) under the symbol "SNM".

## **HIGHLIGHTS**

### *Atrush Contract*

- On November 7, 2016 the Assignment, Novation and Fourth Amendment Agreement to the Atrush PSC (the "4<sup>th</sup> PSC Amendment") and Atrush Facilitation Agreement were concluded between TAQA Atrush B.V. ("TAQA" and the Operator of the Atrush Block), General Exploration Partners. Inc. ("GEP" and a wholly owned subsidiary of ShaMaran), Marathon Oil KDV ("MOKDV")(together, the "Non-Government Contractors") and the Kurdistan Regional Government ("KRG") resulting in participating interests in the Atrush PSC of TAQA at 39.9%, the KRG at 25%, GEP at 20.1% and MOKDV at 15%.
- The above agreements include the terms for repayment to the Non-Government Contractors for costs which they have agreed to pay for on behalf of the KRG, including those relating to the final 35km section of pipeline which will run from the Atrush Block boundary to the tie-in point on the main export pipeline (the "Feeder Pipeline").

### *Production Facility, Export Pipeline and Wells*

- Construction of the 30,000 bopd Atrush Phase 1 Production Facility ("Production Facility") is complete and final commissioning is in progress.
- The Atrush-2 ("AT-2") and Atrush-4 ("AT-4") wells were successfully completed in the second and third quarters of 2016. All four wells intended for production at first oil are now completed, connected to the Production Facility and ready for start-up.
- Work on the pipeline being constructed between the Production Facility and the block boundary (the "Spur Pipeline") and construction of the pump station and the intermediate pigging and pressure reduction station ("IPPR") is substantially complete.

- Work has commenced on the Feeder Pipeline and is subject to the terms of an Engineering, Procurement and Construction (“EPC”) contract between TAQA and KAR Company (“KAR”) which became effective on November 7, 2016. Completion of the Feeder Pipeline is expected in the second quarter of 2017.

#### *Corporate*

- On January 30, 2017 the Company completed the issue of 360 million common shares of ShaMaran on a private placement basis (the “Private Placement”) at a price per share of CAD 0.10 (equal to SEK 0.67) which resulted in gross proceeds to the Company of \$27.3 million (\$26.4 million net of transaction related costs). Zebra Holdings and Investments SARL, Lorito Holdings SARL and Lundin Petroleum BV, the Company’s major shareholders, subscribed for 43,463,618 shares, 16,984,621 shares and 17,800,000 shares, respectively, in the Private Placement.
- The Company completed a financing arrangement in early May 2016 (the “Financing Arrangement”) with holders of the \$140.6 million bonds (the “Senior Bonds”) of GEP, a wholly owned subsidiary of ShaMaran. The Financing Arrangement provides the Company with additional liquidity in 2016 of approximately \$33 million based on the issuance of \$17 million (\$16.2 million proceeds net of transaction costs) of additional super senior bonds (“Super Senior Bonds”) and provides terms for the Company to pay bond coupon interest in kind by issuing additional bonds, including approximately \$17.9 million of 2016 coupon interest. Also under the Financing Arrangement the Company issued 218,863,000 common shares at a deemed price of CAD 0.105 per share to holders of the Senior Bonds who elected to convert Senior Bonds into ShaMaran common shares which represented \$18 million of Senior Bonds at face value. PIK Bonds of \$8.1 million and \$1.0 million were issued under the Senior Bonds and Super Senior Bonds agreements, respectively, to satisfy coupon interest for the six months ended November 13, 2016.
- On February 16, 2017 the Company reported estimated reserves and contingent resources for the Atrush block as of December 31, 2016. Reserves and resource estimates have remained unchanged from those reported for the prior year. Total oil in place is estimated at 1.5 to 2.8 billion barrels, with Total Field Proven plus Probable (“2P”) Reserves on a property gross basis estimated at 85.1 MMbbl. Total Field Unrisked Best Estimate Discovered Recoverable Resources (“2P + 2C”)<sup>1</sup> on a property gross basis is estimated at 389 million barrels oil equivalent (MMboe)<sup>2</sup>.

## **OPERATIONS**

ShaMaran, through its wholly owned subsidiary, GEP, holds a 20.1% direct interest in the Atrush PSC. TAQA, a subsidiary of Abu Dhabi National Energy Company PJSC, is the Operator of the Atrush Block with a 39.9% direct interest, the KRG holds a 25% direct interest and MOKDV holds a 15% direct interest. TAQA, GEP, the KRG and MOKDV together are “the Contractors” to the Atrush PSC.

The Atrush PSC relates to a petroleum property located in Kurdistan in the northern extension of the Zagros Folded Belt and adjacent to several major oil discoveries.

The Atrush field was discovered in 2011 and a Phase 1 development plan was approved in October 2013, which consists of installing and commissioning production facilities with 30,000 bopd capacity and the drilling and completion of production wells to supply the Production Facility. To date four Phase 1 production wells have been drilled, tested and completed, and a further two appraisal wells have been drilled and tested with the objective of further delineating the field towards the east. Good reservoir communication has been proven between the east and the west part of the field.

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<sup>1</sup> 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.

<sup>2</sup> Boe may be misleading, particularly if used in isolation. A boe conversion ratio of 6 million cubic feet (“Mcf”) per one barrel is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

## **Ownership and Principal Terms of the Atrush PSC**

In August 2010 the Company acquired a 33.5% shareholding in GEP which then held an 80% working interest in the Atrush PSC, with the remaining 20% third party interest (“TPI”) being held by the KRG. In October 2010 MOKDV was assigned the 20% TPI in the Atrush PSC. On December 31, 2012 GEP sold a 53.2% direct interest in the Atrush Block to TAQA, who also assumed from GEP the Operatorship of the Block, and repurchased the entire 66.5% shareholding which Aspect Energy International LLC (“Aspect”) held in GEP, leaving the Company with a 100% shareholding interest in GEP and, at that time, a 26.8% direct interest in the Atrush PSC.

On November 7, 2016 the 4<sup>th</sup> PSC Amendment and Atrush Facilitation Agreement were concluded between Non-Government Contractors and the KRG.

The 4<sup>th</sup> PSC Amendment and Atrush Facilitation Agreement include the following principal terms:

- The KRG acquires a 25% interest in the Atrush PSC effective November 7, 2012, the date of declaration of commerciality (“DOC date”). As a consequence the respective participating interests in the Atrush PSC are TAQA at 39.9%, the KRG at 25%, GEP at 20.1% and MOKDV at 15%;
- The Non-Government Contractors will fund the cost of constructing the Feeder Pipeline which will be novated to the KRG following the commencement of oil exports from Atrush;
- All Atrush petroleum costs from the DOC date through the commencement of oil exports from Atrush will be paid by the Non-Government Contractors and a defined portion of the KRG’s share of these costs will be repaid through an accelerated petroleum cost recovery arrangement from the sale of future oil production from Atrush; and
- Feeder Pipeline costs and the balance of the Atrush petroleum costs incurred by the Non-Government Contractors on behalf of the KRG that are not covered by the accelerated petroleum cost recovery arrangement will be repaid by the KRG within 2 years from the commencement of oil exports from Atrush.

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 Contractor Group is 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 Contractor Group is 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%.

## **Current Operations**

### ***Production Facility and Pipeline***

*30,000 bopd Atrush Phase 1 Production Facility:* Construction and commissioning of the Production Facility is complete and final commissioning is in progress.

*Atrush Spur Pipeline:* The Atrush Spur Pipeline project includes the IPPR and a 6 kilometre 10 inch section from the Production Facilities crossing the Chiya Khere Mountain to the IPPR, followed by a 2 kilometer 12 inch section to the Atrush block boundary. The pipeline and the construction of the pump station and the IPPR are substantially complete.

*Atrush Feeder Pipeline:* The Feeder Pipeline consists of a 18 kilometer 12 inch pipeline to the location of a possible future blending station followed by a 17 kilometer 36 inch pipeline to the tie-in point on the main export pipeline at Kurdistan Crude Pipeline pumping station #2 (“KCP2”). Work on the Feeder Pipeline has commenced with completion expected in the second quarter of 2017.

### ***Development Wells***

The completion for both the AT-4 and the AT-2 well were installed and successfully tested in second and third quarter of 2016. The Chiya Khere-5 (“CK-5”) and Chiya Khere-8 (“CK-8”) wells were completed in the third quarter of 2015 and all four wells intended for production at first oil are now completed, connected to the Production Facility and ready for start-up.

A further development well, Chiya Khere-7 (“CK-7”), and the Chiya Khere-9 (“CK-9”) water disposal well, are planned for 2017.

## Location and Operational History

The Atrush Block is located approximately 85 kilometres northwest of Erbil, the capital of Kurdistan, and is 269 square kilometres in area. Oil has been proven in Jurassic fractured carbonates in the Chiya Khere structure and is estimated to contain between 1.5 and 2.8 billion barrels of oil in place. The structure is expressed at surface by the Chiya Khere mountain which runs east-west for approximately 25 kilometres with an approximate width of 3.5 kilometres.

In the year 2008 GEP acquired 143 kilometres of 2D seismic data covering the Atrush Block. In April 2011 the Atrush structure was confirmed as an oil discovery by the Atrush-1 ("AT-1") exploration well. This was followed by the AT-2 appraisal well in July 2012. 3D seismic covering the entire Atrush Block was acquired between July 2011 and August 2012 and a Declaration of Commerciality made on November 7, 2012. The eastern part of the field was successfully appraised in June 2013 by the Atrush-3 ("AT-3") well.

The AT-2 appraisal well was drilled to a depth of 1,750 metres, below the base of Jurassic reservoir section, which was reached in July 2012. The Company announced on September 13, 2012 the results of the comprehensive AT-2 well testing program which confirmed through three separate DSTs the AT-1 Jurassic oil discovery. Individual test rates for the three Jurassic DSTs, constrained by surface testing equipment, were over 10,000 bopd (approximately 27 degree API) and confirmed the significant potential for production from the highly fractured Jurassic reservoir. An additional two DSTs conducted in two deeper Jurassic formations confirmed them to be oil bearing and productive, with test rates limited by the gas lift test method. GEP submitted in October 2012 to the Ministry of Natural Resources ("MNR") of Kurdistan an AT-2 Discovery Report giving notice of the additional discovery formations in the lower part of the Jurassic.

On November 7, 2012 TAQA, GEP and MOKDV, collectively being the Contractor under the Atrush PSC at that time, submitted to the Atrush Block Management Committee a Declaration of Commercial Discovery ("DCD") with effect from November 7, 2012 in accordance with the terms of the Atrush PSC. The DCD was submitted together with an Appraisal Report covering the Atrush field.

The AT-3 eastern area appraisal well was spudded on March 25, 2013 and the well was drilled to a measured depth of 1,806 metres which was reached on June 23, 2013. The well encountered an estimated oil column of 286 metres in the Jurassic reservoir and successfully extended the Atrush accumulation 6.5 kilometres further to the east, while proving producible oil 180 metres deeper than previous wells thereby reducing the uncertainty on the Oil Water Contact/Free Water Level. AT-3 was suspended pending the planned re-entry and successful retest in January 2015.

In June 2013 an interference test was conducted between AT-1 and AT-2. The wells, which are 3.1 kilometres apart, confirmed excellent pressure communication and multi Darcy horizontal permeability through the fracture system in the Jurassic reservoir. This reservoir connectivity was further confirmed, as announced by the Company in February 2015, by pressure communication between the tested Chiya Khere-6 ("CK-6") and AT-3 wells and the AT-2 well, over a distance of 6.5 kilometres, demonstrating that the eastern appraisal area is in pressure communication with the Phase 1 development area.

The Atrush Block Field Development Plan ("FDP") was submitted for approval to the KRG on May 6, 2013, in accordance with the terms of the Atrush PSC within 180 days after the DCD made on November 7, 2012. The FDP was presented in detail to the MNR in June 2013. Phase 1 of the FDP was duly approved with an effective date October 1, 2013.

On October 7, 2013 the Company announced that Phase 1 of the FDP for the Atrush Block had been approved by the KRG. The initial 20-year Development Phase (as defined in the Atrush PSC) commenced on the October 1, 2013.

Following submission of the FDP the AT-1 discovery well was determined to be unsuitable for long-term production and was plugged and abandoned in October 2013.

In 2014 three development wells were drilled. The AT-4 well was drilled up-dip towards the undrilled crest of the structure from the AT-1 drilling site and tested 27-28 API oil at a combined rate of 9,059 bopd from two of the intervals tested. The CK-5 was deviated from the same Chamanke-A well pad with the bottom hole location in the Butmah formation approximately 870 metres west southwest of the surface location, penetrating a gross vertical oil column of approximately 540 metres. CK-8 was also drilled from the same well pad and found the reservoir much higher than expected some 1.4 kilometres east southeast of the surface location. CK-5 and CK-8 were suspended awaiting testing in 2015.

In 2014 CK-6, an eastern area appraisal well, was drilled from the Chamanke-C well pad and reached the Jurassic reservoir approximately 139 metres structurally higher than the nearby AT-3 well, approximately 600 metres South-southeast of the surface location. Three well tests were conducted, showing excellent reservoir quality and demonstrating producible oil as deep as -460m AMSL, nearly 200m deeper than the equivalent interval that successfully tested the higher viscosity oil in the AT-2 well.

In 2015, the CK-5 and CK-8 development wells were successfully tested and completed. The CK-5 well tested 3 separate intervals at a combined rate of 7,350 bopd. The CK-8 well tested 2 intervals at a combined rate of 8,400 bopd.

In 2015, the AT-3 eastern appraisal well was re-entered and tested at a maximum oil rate of 4,900 bopd comingled from two intervals.

## SELECTED ANNUAL FINANCIAL INFORMATION

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

*(In \$000, except per share data)*

	<b>For the year ended December 31,</b>		
	<b><u>2016</u></b>	<b><u>2015</u></b>	<b><u>2014</u></b>
<b>Continuing operations:</b>			
<b>Income</b>			
Service fees	120	-	-
<b>Expenses</b>			
General and administrative expense	(3,811)	(2,359)	(1,548)
Share based payments expense	(249)	(1,210)	(307)
Depreciation and amortisation expense	(45)	(56)	(53)
Impairment loss	-	(244,557)	-
Finance income	484	681	108
Finance cost	(5,586)	(5,321)	(5,304)
Income tax expense	(69)	(94)	(109)
Loss from continuing operations	(9,156)	(252,916)	(7,213)
<b>Discontinued operations:</b>			
Gain on release of excess accrued windup costs	-	46	-
Gain on release of excess site restoration provisions	-	-	228
Expenses	-	(13)	(15)
Gain from discontinued operations	-	33	213
Loss for the year	(9,156)	(252,883)	(7,000)
<b>Basic loss in \$ per share:</b>			
Continuing operations	(0.01)	(0.17)	(0.01)
Discontinued operations	-	-	-
	(0.01)	(0.17)	(0.01)
<b>Diluted loss in \$ per share:</b>			
Continuing operations	(0.01)	(0.17)	(0.01)
Discontinued operations	-	-	-
	(0.01)	(0.17)	(0.01)

<b>Financial position – net book value of principal items</b>	<b>As at December 31,</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
Property Plant & Equipment	174,658	177,044	172
Exploration and evaluation assets	89,007	88,645	429,277
Loans and receivables	53,366	-	-
Cash and other assets	4,640	32,121	58,809
<b>Total assets</b>	<b>321,671</b>	<b>297,810</b>	<b>488,258</b>
Borrowings	(165,129)	(148,263)	(147,657)
Other liabilities	(19,476)	(19,923)	(18,397)
<b>Shareholders' equity</b>	<b>137,066</b>	<b>129,624</b>	<b>322,204</b>
<b>Common shares outstanding (x 1,000)</b>	<b>1,798,632</b>	<b>1,579,768</b>	<b>810,984</b>

### Summary of Principal Changes in Annual Financial Information

The Company has reported in 2016 a net loss of \$9.2 million which was primarily driven by routine general and administrative expenses, share based payment expenses and finance cost, the substantial portion of which was expensed borrowing costs on the Company's bonds. These charges have been offset by service fee revenues, interest income on Atrush cost loans and interest on cash held in short term deposits. The principal changes in annual financial information are further explained in the sections below.

### Results of Continuing Operations

The Company's continuing operations are comprised of the Phase 1 development program on the Atrush Block petroleum property which are currently in the pre-production stages and generate no revenue. The expenses and income items of continuing operations are explained in detail as follows:

#### Service fees

<i>In \$000</i>	<b>For the year ended December 31,</b>	
	<b>2016</b>	<b>2015</b>
Technical service fees	120	-

During the year ended December 31, 2016 the Company has provided technical services to a third party petroleum company.

#### General and administrative expense

<i>In \$000</i>	<b>For the year ended December 31,</b>	
	<b>2016</b>	<b>2015</b>
Salaries and benefits	2,360	3,079
Management and consulting fees	421	1,000
General and other office expenses	341	404
Listing costs and investor relations	298	300
Legal, accounting and audit fees	269	167
Travel expenses	122	244
General and administrative expense incurred	3,811	5,194
General and administrative expense capitalised as E&E assets	-	(2,835)
<b>General and administrative expense</b>	<b>3,811</b>	<b>2,359</b>

The Company capitalises as exploration and evaluation ("E&E") assets general and administrative expenses supporting E&E activities which relate to its direct interest held in the Atrush Block. There were no general and administrative expenses capitalised in the year 2016 because E&E activities during the year were insignificant.

The lower general and administrative expense incurred in the year 2016 relative to the amount incurred in the comparative period of 2015 was principally due to certain non-recurring expenses incurred in the year 2015 including employee termination expenses associated with the change in executive management in January 2015, additional consulting and travel activities relating to the Atrush project and to general business development, and increased travel in connection with the Rights Offering which closed in February 2015.

### **Share based payments expense**

<i>In \$000</i>	<b>For the year ended December 31,</b>	
	<b>2016</b>	<b>2015</b>
Share based payments expense	249	1,210

The share based payments expense results from expensing the Company's outstanding stock options over the vesting period which is complete two years after the grant date. In the previous two years there has been one only grant totalling 26,000,000 options in January 2015. The Company uses the fair value method of accounting for stock options granted to directors, officers, employees and consultants whereby the fair value of all stock options granted is charged to income over the vesting periods. The fair value of common share options granted is estimated on the date of grant using the Black-Scholes option pricing model.

### **Depreciation and amortisation expense**

<i>In \$000</i>	<b>For the year ended December 31,</b>	
	<b>2016</b>	<b>2015</b>
Depreciation and amortisation expense	45	56

Depreciation and amortisation expense corresponds to cost of use of the furniture and IT equipment at the Company's technical and administrative offices located in Switzerland and Kurdistan.

### **Impairment loss**

<i>In \$000</i>	<b>For the year ended December 31,</b>	
	<b>2016</b>	<b>2015</b>
Impairment loss on PP&E assets	-	244,557
Impairment loss	-	244,557

In the year 2015, as a result of significant decline in world oil prices, the Company determined that the book value of the Atrush Block proved and probable reserves as estimated by McDaniel and Associates Consultants Ltd ("McDaniel"), the Company's independent reserves and resources evaluator, (the "Atrush 2P reserves"), exceeded their \$177 million recoverable value, determined by the Company's estimate of the value in use, by an amount of \$244.6 million and therefore recorded an impairment loss for this amount.

### **Finance income**

<i>In \$000</i>	<b>For the year ended December 31,</b>	
	<b>2016</b>	<b>2015</b>
Interest on Atrush Development Cost Loan	406	-
Interest on deposits	44	189
Interest on Atrush Feeder Pipeline Cost Loan	34	-
Foreign exchange gain	-	492
Total finance income	484	681

Under the terms of the 4<sup>th</sup> PSC Amendment and the Non-Government Contractors have agreed to pay their pro-rata share of the Feeder Pipeline costs and of the KRG's share of Atrush development costs up to the commencement of oil exports from Atrush. Thereafter these costs will be reimbursed to the Non-Government Contractors. The loan interest amounts reported in 2016 represent 7% per annum interest on the entire funded portion of Atrush Feeder Pipeline costs up to the balance sheet date and on a defined portion of the Atrush development costs which also bears interest at 7% per annum. For further information on the loans refer to the discussion under the "Loans and receivables" section below.



Interest on deposits represents bank interest earned on cash and investments held in interest bearing funds. The decrease in interest income reported in the year 2016 relative to the amount reported in 2015 is due to a lower level of interest bearing funds held in 2016.

The foreign exchange gain in the year 2015 resulted primarily from holding net assets denominated in Canadian dollars while the CAD strengthened against the United States dollar, the reporting currency of the Company.

### **Finance cost**

<i>In \$000</i>	<b>For the year ended December 31,</b>	
	<b>2016</b>	<b>2015</b>
Interest charges on bonds at coupon rate	17,951	17,250
Amortisation of bond transaction costs	943	606
Interest expense on borrowings	18,894	17,856
Unwinding discount on decommissioning provision	68	36
Total finance costs before borrowing costs capitalised	18,962	17,892
Borrowing costs capitalised as E&E and PP&E assets	(13,376)	(12,571)
<b>Total finance costs</b>	<b>5,586</b>	<b>5,321</b>

During the year 2016 the Company incurred interest expense relating to its Senior Bonds and Super Senior Bonds which both carry an 11.5% fixed semi-annual coupon interest rate. Interest expense on borrowings increased over the comparable period of the prior year due to the additional bonds outstanding in the period and the amortisation of all remaining unamortised bond transaction costs related to \$18 million of Senior Bonds which were converted into ShaMaran common shares in May of 2016. The Company issued \$17 million of Super Senior Bonds in May 2016 and a further total of \$17.7 million of PIK bonds were issued in May and November of 2016.

General and specific borrowing costs directly attributable to the acquisition, exploration and development of Atrush have been capitalised together with the related Atrush oil and gas assets. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

### **Income tax expense**

<i>In \$000</i>	<b>For the year ended December 31,</b>	
	<b>2016</b>	<b>2015</b>
Income tax expense	69	94

Income tax expense relates to provisions for income taxes on service income generated in Switzerland which is determined on the basis of costs incurred in procuring the services. The decrease in tax expense from the amount reported in 2015 is primarily due to lower taxable income in the Swiss subsidiary which decreased compared to 2015 when costs of service included exceptional employee termination expenses associated with the change in senior executive management.

### **Results of Discontinued Operations**

The main components of discontinued operations are explained as follows:

#### **Income**

<i>In \$000</i>	<b>For the year ended December 31,</b>	
	<b>2016</b>	<b>2015</b>
Gain on release of excess accrued windup costs	-	46
Gain on discontinued operations	-	46

During the year 2015 the Company completed the windup of Summit Energy Company LLC, which was the lone remaining United States based operational subsidiary of the Company. The total cost to complete this exercise was less than the amount previously estimated and the excess accrued windup costs have been released resulting in a gain in the year 2015.

## Expenses

<i>In \$000</i>	For the year ended December 31,	
	2016	2015
Legal, accounting and audit fees	-	12
General and other office expenses	-	1
Expenses from discontinued operations	-	13

## Capital Expenditures on Property Plant & Equipment (“PP&E”) Oil and Gas Assets

The net book value of PP&E oil and gas assets at December 31, 2016 is comprised of development costs related to the Company’s share of Atrush 2P reserves. These costs are not subject to depletion until commencement of commercial production. The movements in PP&E oil and gas assets are explained as follows:

<i>In \$000</i>	For the year ended December 31,	
	2016	2015
Opening net book value	177,000	89
Additions	45,799	11,029
Transfer to Atrush development cost loan	(10,682)	-
Transfer to Atrush Exploration Costs receivable	(37,475)	-
Transfer from intangible E&E	-	410,472
Depreciation charge	-	(33)
Impairment loss	-	(244,557)
Ending net book value	174,642	177,000

The additions to PP&E in the year 2016 included borrowing costs totalling \$13.1 million (2015: \$1 million).

On November 7, 2016 the 4<sup>th</sup> PSC Amendment and Atrush Facilitation Agreement were concluded between Non-Government Contractors and the KRG which has resulted in the reclassification of certain costs from PP&E to loans and receivables.

In the year 2015, as a result of significant decline in world oil prices, the Company determined that the book value of the Atrush 2P reserves exceeded their \$177 million recoverable value, determined by the Company’s estimate of the value in use, by an amount of \$244.6 million and therefore recorded an impairment loss for this amount. Also in the year 2015, \$410.5 million of costs related to the Atrush 2P reserves were transferred from intangible assets to PP&E in 2015 following the approval of an agreement for the construction of a crude oil pipeline within the Atrush Block.

## Capital Expenditures on Exploration and Evaluation (“E&E”) Assets

The net book value of E&E assets at December 31, 2016 represents Atrush Block exploration and appraisal costs related to the Company’s share of Atrush Block contingent resources as estimated by McDaniel. The movements in E&E assets are explained as follows:

<i>In \$000</i>	For the year ended December 31,	
	2016	2015
Opening net book value	88,594	429,245
Additions	378	69,821
Transfer to PP&E	-	(410,472)
Ending net book value	88,972	88,594

During the year 2016 borrowing costs of \$0.3 million (2015: \$11.5 million) were capitalised to E&E assets.

In November 2015 \$410.5 million of costs related to Atrush 2P reserves were transferred from intangible assets to PP&E. Refer also to the above discussion under Capital Expenditures on PP&E.

## Loans and receivables

On November 7, 2016 the 4<sup>th</sup> PSC Amendment and Atrush Facilitation Agreement were concluded between the Non-Government Contractors and the KRG. On the same day TAQA entered into an EPC contract with KAR Company for the construction of the feeder pipeline from the Atrush block boundary to the tie-in point with the main Kurdistan export pipeline (the "Feeder Pipeline").

Under the terms of the 4<sup>th</sup> PSC Amendment and Atrush Facilitation Agreement:

- The KRG acquires a 25% interest in the Atrush PSC effective November 7, 2012, the DOC date. As a consequence the respective participating interests in the Atrush PSC are TAQA at 39.9%, the KRG at 25%, GEP at 20.1% and MOKDV at 15%;
- All Atrush petroleum costs from the DOC date through the commencement of oil exports from Atrush will be paid by the Non-Government Contractors and a defined portion of the KRG's share of these costs will be deemed Exploration Costs as defined in the Atrush PSC and repaid through an accelerated petroleum cost recovery arrangement from the sale of future oil production from Atrush. This arrangement has resulted in the Atrush Exploration Cost receivable at year end as reported in the table below; and
- The Non-Government Contractors will fund the cost of constructing the Feeder Pipeline which will be novated to the KRG following the commencement of oil exports from Atrush. The Feeder Pipeline costs and the balance of the Atrush petroleum costs incurred by the Non-Government Contractors on behalf of the KRG excluding the portion deemed as Exploration Costs will be repaid with interest at 7% per annum by the KRG within 2 years from the commencement of oil exports from Atrush (respectively, the "Atrush Feeder Cost Loan" and the "Atrush Development Cost Loan"). These arrangements have resulted in loan balances at year end as reported in the table below.

	As at December 31,	
	2016	2015
Atrush Exploration Costs receivable	37,475	-
Atrush Development Cost Loan	12,857	-
Atrush Feeder Pipeline Cost Loan	3,034	-
<b>Total loans and receivables</b>	<b>53,366</b>	<b>-</b>

## Borrowings

At December 31, 2016 General Exploration Partners, Inc. had outstanding \$148.7 million of Senior Bonds and \$18.1 million of Super Senior Bonds. The Senior Bonds are listed on the Oslo Børs in Norway under the symbol "GEP01", have a five year maturity from their issuance date of November 13, 2013 and carry an 11.5% fixed semi-annual coupon and were used to fund capital expenditures related to the development of the Atrush Block. The Super Senior Bonds also mature on November 13, 2018, carry an 11.5% fixed semi-annual coupon and are being used to fund capital expenditures related to the development of the Atrush Block. The movements in borrowings are explained as follows:

	As at December 31,	
<i>In \$000</i>	2016	2015
Opening balance	150,515	149,909
Interest charges at coupon rate	17,951	17,250
Bonds issued as interest payment	17,700	-
Super Senior Bonds – net of transaction costs	16,223	-
Amortisation of bond transaction costs	943	606
Interest payments to bondholders	(17,700)	(17,250)
Senior Bonds exchanged for ShaMaran common shares	(18,000)	-
Ending balance	167,632	150,515
- Current portion: accrued bond interest expense	2,503	2,252
- Non-current portion: borrowings	165,129	148,263

The remaining contractual obligations comprising of repayment of principal and interest expense under the bond agreements, based on undiscounted cash flows at payment date and assuming all interest in 2016 and 2017 is paid by issuing new bonds and the bonds are not redeemed early, are as follows:

	As at December 31,	
	2016	2015
Less than one year	19,722	17,250
Between one and two years	188,138	182,763
<b>Total</b>	<b>207,860</b>	<b>200,013</b>

### ***Financing Arrangement – May 2016***

In early May 2016 the Company completed a financing arrangement (the “Financing Arrangement”) with holders of GEP’s Senior Bonds (the “Existing Bondholders”) which provided the Company with additional liquidity in 2016 of approximately \$33 million. The principal terms of the Financing Arrangement are:

1. On May 3, 2016 GEP issued new \$17 million Super Senior Bonds resulting in \$16.2 million in proceeds net of transaction costs. The Super Senior Bonds are based on the same agreement as the Senior Bonds with the same maturity date of November 13, 2018 and an 11.5% coupon interest payable semi-annually. GEP has the option to pay the coupon interest on the Super Senior Bonds in cash or in kind by issuing new bonds (“PIK Bonds”). ShaMaran’s major shareholders, Lorito Holdings SARL and Zebra Holdings and Investments SARL, companies owned by the Lundin Family Trust, subscribed for \$15.3 million of the Super Senior Bonds in accordance with the terms of their agreement with GEP to underwrite the Super Senior Bonds.
2. On May 12, 2016 ShaMaran completed the issue of a total of 218,863,000 of its common shares to Existing Bondholders who elected to convert to shares a total of \$18 million of Senior Bonds at face value. The shares were issued at CAD 0.105 which was closing share price on the TSX Venture exchange on the day prior to when the Existing Bondholders approved the offer on April 19, 2016.
3. The bond agreement for the Senior Bonds was amended so that (a) the 2016 coupon interest (\$17.3 million before considering the conversion in 2 above) was settled by issuing new PIK Bonds; (b) GEP has the option to pay in cash or in kind (by issuing new PIK Bonds) the post 2016 coupon interest; and (c) certain waivers and amendments were made to the terms of the Senior Bonds including the subordination of Senior Bonds’ security to the Super Senior Bonds’ security and the replacement of the book equity ratio maintenance covenant with certain debt incurrence tests described below.

### ***Debt Incurrence Tests***

In accordance with the amended terms of GEP’s Senior Bonds and Super Senior Bonds agreements ShaMaran is required to be in compliance with certain debt incurrence tests as follows:

1. upon incurrence of any new financial indebtedness, other than certain permitted financial indebtedness as described in the Super Senior Bonds agreement, then ShaMaran’s Book Equity Ratio, which is defined as shareholders’ equity divided by total assets, shall be minimum 30% immediately thereafter, and
2. ShaMaran and any of its subsidiaries (together the “Group”) other than GEP, which is not allowed to do so, may not enter into an agreement to make any acquisitions, merger or any other transactions involving another party being consolidated into the Group’s accounts, unless such other party has a minimum 30% Book Equity Ratio prior to such transaction taking place.

### ***Security***

Following the amendment to the Senior Bonds agreement the security previously held for the Senior Bonds is joint security with the new Super Senior Bonds on first rank and the Senior Bonds on second rank until the Super Senior Bonds are repaid in full.

The bonds include an unconditional and irrevocable on-demand guarantee on a joint and several basis from the Company and certain of the Company’s direct and indirect subsidiaries and, among other arrangements, agreements which pledge all of the ordinary shares of GEP and the Company’s Swiss service subsidiary, ShaMaran Services SA, as security for GEP’s bond related obligations, as well as an internal credit facility agreement among the Company and certain of its subsidiaries setting out the terms and conditions for intra-group credit to be made available amongst the parties.

Under the terms of both bond agreements all bond proceeds are held in accounts pledged to the bond trustee as security and may be accessed by the Company on prior authorisation of the bond trustee provided the proceeds are to be employed for prescribed purposes, most notably to fund the financing, development and operation of the Atrush Block and to fund technical, management and administrative services of ShaMaran's subsidiary companies up to \$6 million per year over the term of the bonds. Of the Company's \$4.4 million of total cash and cash equivalents at December 31, 2016 (2015: \$31.9 million) \$nil was held in accounts pledged to the bond trustee (December 31, 2015: \$1.5 million).

During the year 2016 PIK Bonds of \$16.7 million and \$1.0 million were issued as coupon interest payments under the respective Senior Bonds and Super Senior Bonds agreements.

## SELECTED QUARTERLY FINANCIAL INFORMATION

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

(In \$000, except per share data)

	For the quarter ended							
	Dec 31 2016	Sep 30 2016	Jun 30 2016	Mar 31 2016	Dec 31 2015	Sep 30 2015	Jun 30 2015	Mar 31 2015
<b>Continuing operations</b>								
Service fees	-	90	30	-	-	-	-	-
Impairment loss	-	-	-	-	(244,557)	-	-	-
General and admin. expense	(805)	(695)	(1,009)	(1,302)	(460)	(384)	(552)	(963)
Share based payments expense	(57)	(58)	(58)	(76)	(172)	(186)	(176)	(676)
Depreciation and amortisation	(11)	(12)	(11)	(11)	(11)	(13)	(16)	(16)
Finance cost	(1,422)	(1,393)	(1,443)	(1,402)	(1,328)	(1,331)	(1,370)	(1,346)
Finance income	509	16	12	21	47	88	58	542
Income tax expense	(14)	(14)	(15)	(26)	(10)	(23)	(34)	(27)
Net loss from continuing ops.	(1,800)	(2,066)	(2,494)	(2,796)	(246,491)	(1,849)	(2,090)	(2,486)
<b>Discontinued operations</b>								
Gain on release of excess provision	-	-	-	-	-	46	-	-
Income / (expense)	-	-	-	-	1	-	(4)	(10)
Net income / (loss) from discontinued ops.	-	-	-	-	1	46	(4)	(10)
<b>Net loss</b>	(1,800)	(2,066)	(2,494)	(2,796)	(246,490)	(1,803)	(2,094)	(2,496)
<b>Basic income in \$ per share:</b>								
Continuing operations	(0.01)	-	-	-	(0.17)	-	-	-
Discontinued operations	-	-	-	-	-	-	-	-
	(0.01)	-	-	-	(0.17)	-	-	-
<b>Diluted income in \$ per share:</b>								
Continuing operations	(0.01)	-	-	-	(0.17)	-	-	-
Discontinued operations	-	-	-	-	-	-	-	-
	(0.01)	-	-	-	(0.17)	-	-	-

## Summary of Principal Changes in the Fourth Quarter Financial Information

In the fourth quarter of 2016 work on the Atrush Block development program continued. The net loss was primarily driven by general and administrative expenses, share based payments expense and finance cost, the substantial portion of which were expensed borrowing costs on the Company's Senior Bonds and Super Senior Bonds. These expenses have been slightly offset by interest income on Atrush cost loans to the KRG, interest bearing funds as well as service fees.

## LIQUIDITY AND CAPITAL RESOURCES

Working capital at December 31, 2016 was \$3.0 million compared to \$20.3 million at December 31, 2015.

The overall cash position of the Company decreased by \$27.5 million during the year 2016 compared to a decrease in cash of \$25.3 million during the year 2015. The main components of the movement in funds are discussed in the following paragraphs.

The operating activities of the Company during the 2016 resulted in a decrease in the cash position of \$6.9 million compared to a decrease of \$3.2 million in the cash position in 2015. The decrease in the cash position is explained by a net loss of \$9.2 million and \$2.3 million of net positive cash adjustments from working capital items and non-cash expenses.

Net cash outflows to investing activities in 2016 were \$36.8 million compared to \$64.4 million in 2015. Substantially all of the cash outflows to investing activities in 2016 relate to investment in the Atrush Block development work program, and was comprised of \$32.1 million in respect of the Company's 20.1 interest in Atrush and \$4.7 million in respect of loans to the KRG to fund a portion of their Atrush Feeder Pipeline and other development costs.

The Company had net cash inflows from financing activities in 2016 of \$16.2 million compared to \$41.8 million in the prior year. The cash inflows relate to the Super Senior Bonds issued on May 3, 2016 by GEP with gross proceeds of \$17.0 million, net of \$0.8 million in transaction related costs, resulting in net proceeds of \$16.2 million. Refer also to the discussion above under the "Borrowings" section of this MD&A. The 2015 cash inflows relate to the rights offering that was completed in the first quarter of 2015.

At December 31, 2016 ShaMaran held cash and cash equivalents of \$4.4 million. Management cash flow forecasts for the 12 months ended December 31, 2017 include cash inflows of \$39 million from oil sales and \$26.4 million from ShaMaran common shares issued in January 2017 and cash outflows of \$50 million on Atrush development, Atrush Feeder Pipeline costs and technical and administrative costs in support of Atrush operations. The oil sales volume assumptions reflect production commencing in the second quarter of 2017 and reaching, shortly thereafter, a rate of 30,000 barrels of oil per day which reflects the planned capacity of the Atrush production facility and that all crude oil produced from Atrush will be delivered, sold and paid for in accordance with the terms of the Atrush PSC two months following the month of production. The forecasted cash flow includes an average oil price of \$58 per barrel based on ICE Brent forward contract prices as of the balance sheet date and a \$12 per barrel discount for transportation costs and quality differentials. The price discount, delivery, sales and payment assumptions are consistent with observed practice in Kurdistan since mid-2015. The timing and extent of Atrush development costs is based on the Operator's latest forecasts for the 2017 work program while the technical and administrative support costs are management's latest estimates for these forthcoming requirements.

In case there are delays in the forecasted receipt of cash from production or in the magnitude of those cash receipts, which are under the control of the Kurdistan Regional Government, the Company could, by the third quarter of 2017, require additional liquidity in order to fund the forecasted Atrush development program thereafter. Failure to meet development commitments could put the Atrush PSC and the Company's bond agreements at risk of forfeiture.

Management continues to monitor its financing requirements and consider appropriate financing alternatives which include a facility under the Company's existing bond agreements allowing for the Company to propose the issuance of up to an additional \$33 million of bonds under the same bond terms. Management estimates this financing source could be administered within two months. However, in the event that an offering of additional bonds cannot be completed, or that the Company could not secure external financing in an amount required to meet its obligations as they come due, the Company may be required to take measures such as divestment of assets and or further renegotiation of its debt. Should this not be successful, there is a risk that the Company would be subject to a partial or complete reorganization, or that the Company is declared bankrupt.

The Company believes that based on the forecasts and projections they have prepared and potential financing alternatives which will be pursued as required the Company will have the resources sufficient to satisfy its contractual obligations and commitments over the next 12 months and to continue as a going concern for the foreseeable future. Nevertheless the possibility remains that the Company's operations and current and future financial resources could be significantly affected by adverse geopolitical events in the region, macroeconomic conditions or other risks, including uncertainty surrounding oil production forecasted to commence in the second quarter of 2017 and the level of project development costs that the Company may be required to fund. The potential that the Company's financial resources are insufficient to fund its appraisal, development and production activities for the next 12 months, particularly in case there are unforeseen delays in oil production or receipt of funds from oil sales, indicates a material uncertainty which may cast significant doubt over the Company's ability to continue as a going concern.

## OUTSTANDING SHARE DATA AND STOCK OPTIONS

218,863,000 ShaMaran common shares were issued to holders of GEP's Senior Bonds in early May 2016 in exchange for settling \$18 million of GEP's Senior Bonds. The Company had 1,798,631,534 outstanding shares at December 31, 2016 (December 31, 2015: 1,579,768,534).

On January 30, 2017 the Company completed the issue of 360 million common shares of ShaMaran on a private placement basis (the "Private Placement") at a price per share of CAD 0.10 (equal to SEK 0.67) which resulted in gross proceeds to the Company of \$27.3 million (\$26.4 million net of transaction related costs). Zebra Holdings and Investments SARL, Lorito Holdings SARL and Lundin Petroleum BV, the Company's major shareholders, subscribed for 43,463,618 shares, 16,984,621 shares and 17,800,000 shares, respectively, in the Private Placement. As a result of the Private Placement the Company had 2,158,631,534 outstanding shares at the date of this MD&A.

At December 31, 2016 there were 28,165,000 stock options outstanding under the Company's employee incentive stock option plan. In the year 2016 no stock options were issued or exercised and 25,000 expired (2015: 26 million issued and 4,565,000 expired). There has been no further movement in stock options from December 31, 2016 to the date of this MD&A.

The Company has no warrants outstanding.

## OFF BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements.

## RELATED PARTY TRANSACTIONS

*In \$000*

	Purchases of services during the year		Amounts owing at December 31,	
	2016	2015	2016	2015
Lundin Petroleum AB	299	473	24	40
Namdo Management Services Ltd.	99	173	1	9
McCullough O'Connor Irwin LLP	44	18	-	2
<b>Total</b>	<b>442</b>	<b>664</b>	<b>25</b>	<b>51</b>

The Company receives services from various subsidiary companies of Lundin Petroleum AB ("Lundin"), a shareholder of the Company. Lundin charges during the year ended December 31, 2016 of \$299 (2015: \$473) were comprised of technical service costs of \$3 (2015: \$59), reimbursement for Company travel and related expenses of \$nil (2015: \$23), investor relations services of \$28 (2015: \$29), office rental, administrative and building services of \$268 (2015: \$362).

Namdo Management Services Ltd. is a private corporation affiliated with a shareholder of the Company and has provided corporate administrative support and investor relations services to the Company.

McCullough O'Connor Irwin LLP is a law firm in which an officer of the Company is a partner and has provided legal services to the Company.

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

Also refer to the discussion under the "Borrowings" section above.

## COMMITMENTS

### Atrush Block Production Sharing Contract

ShaMaran holds a 20.1% direct interest in the Atrush PSC through GEP. TAQA is the Operator with a 39.9% direct interest, the KRG holds a 25% direct interest and MOKDV holds a 15% direct interest. Under the terms of the 4<sup>th</sup> PSC Amendment and the Facilitation Agreement the Non-Government Contractors have agreed to pay their pro-rata share of the Feeder Pipeline costs and of the KRG's share of Atrush development costs up to the commencement of oil exports from Atrush. Thereafter these costs will be reimbursed to the Non-Government Contractors.

Under the terms of the Atrush PSC the development period is for 20 years with an automatic right to a five year extension and the possibility to extend for an additional five years. All qualifying petroleum costs incurred by the Contractors shall be recovered from a portion of available petroleum production, defined under the terms of the Atrush PSC. All modifications to the Atrush PSC are subject to the approval of the KRG. The Company is responsible for its pro-rata share of the costs incurred in executing the development work program on the Atrush Block which commenced on October 1, 2013.

As at December 31, 2016 the outstanding commitments of the Company were as follows:

<i>In \$000</i>	For the year ended December 31,				
	2017	2018	2019	Thereafter	Total
Atrush Block development	46,428	152	152	2,276	49,008
Office and other	38	-	-	-	38
<b>Total commitments</b>	<b>46,466</b>	<b>152</b>	<b>152</b>	<b>2,276</b>	<b>49,046</b>

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

## PROPOSED TRANSACTIONS

The company had no transactions pending at the date of this MD&A.

## CRITICAL ACCOUNTING ESTIMATES AND ACCOUNTING POLICIES

### Accounting Estimates

The consolidated financial statements of the Company have been prepared by management using IFRS. In preparing financial statements, management makes informed judgments and estimates that affect the reported amounts of assets and liabilities as of the date of the financial statements and affect the reported amounts of revenues and expenses during the period. Specifically, estimates are utilised in calculating depletion, asset retirement obligations, fair values of assets on acquisition of control, share-based payments, amortisation and impairment write-downs as required. Actual results could differ from these estimates and differences could be material.

### New Accounting Standards

There are no IFRS or interpretations that have been issued effective for financial years beginning on or after January 1, 2016 that would have a material impact on the Company's consolidated financial statements.

### Accounting Standards Issued But Not Yet Applied

Standards and interpretations issued but not yet effective up to the date of issuance of the financial statements are listed below.

*IFRS 9: Financial Instruments - Classification and Measurement*, addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and amended in October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than in net earnings, unless this creates an accounting mismatch. The new standard will be effective for annual periods beginning on or after January 1, 2018. The Company is in the process of assessing the full impact of IFRS 9 and intends to adopt IFRS 9 no later than the accounting period beginning on or after January 1, 2018.

*IFRS 15: Revenue from contracts with customers* is the new standard which replaces IAS 18 Revenue and IAS 11 Construction Contracts and provides a five step framework for application to customer contracts; identification of customer contract, identification of the contract performance obligations, determination of the contract price, allocation of the contract price to the contract performance obligations, and revenue recognition as performance obligations are satisfied. A new requirement where revenue is variable stipulates that revenue may only be



recognised to the extent that it is highly probable that significant reversal of revenue will not occur. The new standard will be effective for annual periods beginning on or after January 1, 2018. The Company is in the process of assessing the full impact of IFRS 15 and intends to adopt IFRS 15 no later than the accounting period beginning on or after January 1, 2018.

*IFRS 16: Leases* will replace *IAS 17 Leases* and requires assets and liabilities arising from all leases, with some exceptions, to be recognized on the balance sheet. The new standard will be effective for annual periods beginning on or after January 1, 2019. The Company is in the process of assessing the full impact of IFRS 16 and intends to adopt IFRS 16 no later than the accounting period beginning on or after January 1, 2019.

### **Accounting for Oil and Gas Operations**

The Company follows the successful efforts method of accounting for its oil and gas operations. Under this method acquisition costs of oil and gas properties, costs to drill and equip exploratory and appraisal wells that are likely to result in proved reserves and costs of drilling and equipping development wells are capitalised and subject to annual impairment assessment.

Exploration well costs are initially capitalised and, if subsequently determined to have not found sufficient reserves to justify commercial production, are charged to exploration expense. Exploration well costs that have found sufficient reserves to justify commercial production, but whose reserves cannot be classified as proved, continue to be capitalised as long as sufficient progress is being made to assess the reserves and economic viability of the well and or related project.

Capitalised costs of proved oil and gas properties are depleted using the unit of production method based on estimated gross proved and probable reserves of petroleum and natural gas as determined by independent engineers. Successful exploratory wells and development costs and acquired resource properties are depleted over proved and probable reserves. Acquisition costs of unproved reserves are not depleted or amortised while under active evaluation for commercial reserves. Costs associated with significant development projects are depleted once commercial production commences. A revision to the estimate of proved and probable reserves can have a significant impact on earnings as they are a key component in the calculation of depreciation, depletion and accretion.

Producing properties and significant unproved properties are assessed annually, or more frequently as economic events dictate, for potential indicators of impairment. Economic events which would indicate impairment include:

- The period for which the Company has the right to explore in the specific area has expired during the period or will expire in the near future and is not expected to be renewed.
- Substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned.
- Exploration for and evaluation of resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the Company has decided to discontinue such activities in the specific area.
- Sufficient data exists to indicate that, although a development in the specific area is likely to proceed, the carrying amounts of E&E and oil and gas assets is unlikely to be recovered in full from successful development or by sale.
- Extended decreases in prices or margins for oil and gas commodities or products.
- A significant downwards revision in estimated volumes or an upward revision in future development costs.

For the purpose of 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.

## RESERVES AND RESOURCE ESTIMATES

The Company engaged McDaniel to evaluate 100% of the Company's reserves and resource data at December 31, 2016. The conclusions of this evaluation have been presented in a Detailed Property Report which has been prepared in accordance with standards set out in the Canadian National Instrument NI 51-101 and Canadian Oil and Gas Evaluation Handbook ("COGEH").

Reserves and resource estimates have remained unchanged from those reported for the prior year.

The Company's crude oil reserves as of December 31, 2016 were, based on the Company's working interest of 20.1 percent, estimated to be as follows:

### Company estimated reserves (diluted) As of December 31, 2016

	Proved Developed	Proved Undeveloped	Total Proved	Probable	Total Proved & Probable	Possible	Total Proved, Probable & Possible
<b>Light/Medium Oil (Mbbbl)<sup>(1)</sup></b>							
Gross <sup>(2)</sup>	-	4,653	4,653	7,779	12,432	10,366	22,798
Net <sup>(3)</sup>	-	3,096	3,096	4,302	7,399	3,339	10,737
<b>Heavy Oil (Mbbbl)<sup>(1)</sup></b>							
Gross <sup>(2)</sup>	-	2,287	2,287	2,394	4,681	3,108	7,789
Net <sup>(3)</sup>	-	1,522	1,522	1,264	2,786	882	3,668

Notes:

- (1) The Atrush Field contains crude oil of variable density even within a single reservoir unit and as such the actual split between Light/Medium Oil and Heavy Oil is uncertain.
- (2) Company gross reserves are based on the Company's 20.1 percent working interest share of the property gross reserves.
- (3) Company net reserves are based on Company share of total Cost and Profit Revenues. Note, as the government pays income taxes on behalf of the Company out of the government's profit oil share, the net reserves were based on the effective pre-tax profit revenues by adjusting for the tax rate.

The Company's crude oil and natural gas contingent resources as of December 31, 2016 were estimated to be as follows, based on a Company working interest of 20.1 percent:

### Company estimated contingent resources (diluted)<sup>(1) (2)</sup> As of December 31, 2016

	Low Estimate (1C)	Best Estimate (2C)	High Estimate (3C)
<b>Light/Medium Oil (Mbbbl)<sup>(3)</sup></b>			
Gross <sup>(4)</sup>	16,050	17,980	19,895
<b>Heavy Oil (Mbbbl)<sup>(3)</sup></b>			
Gross <sup>(4)</sup>	20,256	41,656	66,616
<b>Natural Gas (MMcf)</b>			
Gross <sup>(4)</sup>	5,010	8,810	13,756

Notes:

- (1) Based on a 20.1 percent Company working interest share of the property gross resources.
- (2) There is no certainty that it will be commercially viable to produce any portion of the resources.
- (3) The Atrush Field contains crude oil of variable density even within a single reservoir unit and as such the actual split between Light/Medium Oil and Heavy Oil is uncertain.
- (4) These are unrisks contingent resources that do not take into account the chance of development which is defined as the probability of a project being commercially viable. Quantifying the chance of development requires consideration of both economic contingencies and other contingencies, such as legal, regulatory, market access, political, social license, internal and external approvals and commitment to project finance and development timing. As many of these factors are extremely difficult to quantify, the chance of development is uncertain and must be used with caution. The chance of development was estimated to be 80 percent for the Crude Oil and 5 percent for the Natural Gas.

The contingent resources represent the likely recoverable volumes associated with further phases of development after Phase 1. These are considered to be contingent resources rather than reserves due to the uncertainty over the future development plan which will depend in part on further field appraisal and Phase 1 production performance.

Prospective resources have not been re-evaluated since December 31, 2013.

**Risks in estimating resources:** There are a number of uncertainties inherent in estimating the quantities of reserves and resources including factors which are beyond the control of the Company. Estimating reserves and resources is a subjective process and the results of drilling, testing, production and other new data subsequent to the date of an estimate may result in revisions to original estimates.

Reservoir parameters may vary within reservoir sections. The degree of uncertainty in reservoir parameters used to estimate the volume of hydrocarbons, such as porosity, net pay and water saturation, may vary. The type of formation within a reservoir section, including rock type and proportion of matrix and or fracture porosity, may vary laterally and the degree of reliability of these parameters as representative of the whole reservoir may be proportional to the overall number of data points (wells) and the quality of the data collected. Reservoir parameters such as permeability and effectiveness of pressure support may affect the recovery process. Recovery of reserves and resources may also be affected by the availability and quality of water, fuel gas, technical services and support, local operating conditions, security, performance of the operating company and the continued operation of well and plant equipment.

Additional risks associated with estimates of reserves and resources include risks associated with the oil and gas industry in general which include normal operational risks during drilling activity, development and production; delays or changes in plans for development projects or capital expenditures; the uncertainty of estimates and projections related to production, costs and expenses; health, safety, security and environmental risks; drilling equipment availability and efficiency; the ability to attract and retain key personnel; the risk of commodity price and foreign exchange rate fluctuations; the uncertainty associated with dealing with governments and obtaining regulatory approvals; performance and conduct of the Operator; and risks associated with international operations.

The Company's project is in the appraisal and development stages and, as such, additional information must be obtained by further appraisal drilling and testing to ultimately determine the economic viability of developing any of the contingent or prospective resources. There is no certainty that the Company will be able to commercially produce any portion of its contingent or prospective resources. Any significant change, in particular, if the volumetric resource estimates were to be materially revised downwards in the future, could negatively impact investor confidence and ultimately impact the Company's performance, share price and total market capitalisation.

The Company has engaged professional geologists and engineers to evaluate reservoir and development plans; however, process implementation risk remains. The Company's reserves and resource estimations are based on data obtained by the Company which has been independently evaluated by McDaniel.

## **FINANCIAL INSTRUMENTS**

The Company's financial instruments currently consist of cash, cash equivalents, advances to joint operations, other receivables, borrowings, accounts payable and accrued expenses, accrued interest on bonds, provisions for decommissioning costs, and current tax liabilities. The Company classifies its financial assets and liabilities at initial recognition in the following categories:

- Financial assets and liabilities at fair value through profit or loss are those assets and liabilities acquired principally for the purpose of selling or repurchasing in the short-term and are recognised at fair value. Transaction costs are expensed in the statement of comprehensive income and gains or losses arising from changes in fair value are also presented in the statement of comprehensive income within other gains and losses in the period in which they arise. Financial assets and liabilities at fair value through profit or loss are classified as current except for the portion expected to be realised or paid beyond twelve months of the balance sheet date, which is classified as non-current.
- Loans and receivables comprise of other receivables and cash and cash equivalents and are financial assets with fixed or determinable payments that are not quoted on an active market and are generally included within current assets due to their short-term nature. Loans and receivables are initially recognised at fair value and are subsequently measured at amortised cost using the effective interest method less any provision for impairment.
- Financial liabilities at amortised cost comprise of trade and other payables and are initially recognised at the fair value of the amount expected to be paid and are subsequently measured at amortised cost using the effective interest rate method. Financial liabilities are classified as current liabilities unless the Company has an unconditional right to defer settlement for at least 12 months after the balance sheet date.

With the exception of borrowings, accrued interest on bonds and provisions for decommissioning costs, which have fair value measurements based on valuation models and techniques where the significant inputs are derived from quoted prices or indices, the fair values of the Company's other financial instruments did not require valuation techniques to establish fair values as the instrument was either cash and cash equivalents or, due to the short term nature, readily convertible to or settled with cash and cash equivalents.

The Company is exposed in varying degrees to a variety of financial instrument related risks which are discussed in the following sections:

#### **Financial Risk Management Objectives**

The Company's management monitors and manages the Company's exposure to financial risks facing the operations. These financial risks include market risk (including commodity price, foreign currency and interest rate risks), credit risk and liquidity risk.

The Company does not presently hedge against these risks as the benefits of entering into such agreements is not considered to be significant enough as to outweigh the significant cost and administrative burden associated with such hedging contracts.

**Commodity price risk:** The prices that the Company receives for its oil and gas production may have a significant impact on the Company's revenues and cash flows provided by operations. World prices for oil and gas are characterised by significant fluctuations that are determined by the global balance of supply and demand and worldwide political developments and in particular the price received for the Company's oil and gas production in Kurdistan is dependent upon the Kurdistan government and its ability to export production outside of Iraq. The spot price of Brent Crude Oil, a reference in determining the price at which the Company can sell future oil production, has experienced a significant decline in the years 2014 and 2015. A further decline in the price at which the Company can sell future oil and gas 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 also 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 and Canadian dollars. 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 on its cash and cash equivalents at both fixed and variable rates and is therefore exposed to interest rate risk due to a fluctuation in short-term interest rates.

The Company's policy on interest rate management is to maintain a certain amount of funds in the form of cash and cash equivalents for short-term liabilities and to have the remainder held on relatively short-term deposits.

The Group is highly leveraged through financing at the project level, for the continuation of Atrush project, and at the corporate level due to GEP's outstanding Senior Bonds and Super Senior Bonds. However, the Company is not exposed to interest rate risks associated with the bonds as the interest rate is fixed.

**Credit risk:** Credit risk is the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company is primarily exposed to credit risk on its cash and cash equivalents and other receivables.

The Company manages credit risk by monitoring counterparty ratings and credit limits and by maintaining excess cash and cash equivalents on account in instruments having a minimum credit rating of R-1 (mid) or better (as measured by Dominion Bond Rate Services) or the equivalent thereof according to a recognised bond rating service.

The carrying amounts of the Company's financial assets recorded in the consolidated financial statements represent the Company's maximum exposure to credit risk.

**Liquidity risk:** Liquidity risk is the risk that the Company will have difficulties meeting its financial obligations as they become due. In common with many oil and gas exploration companies, the Company raises financing for its exploration and development activities in discrete tranches in order to finance its activities for limited periods. The Company seeks to raise additional funding as and when required. The Company anticipates making substantial capital expenditures in the future for the acquisition, exploration, development and production of oil and gas reserves and as the Company's project moves further into the development stage, specific financing, including the possibility of additional debt, may be required to enable future development to take place. The financial results of the Company will impact its access to the capital markets necessary to undertake or complete future drilling and development programs. There can be no assurance that debt or equity financing, or future cash generated by operations, would be available or sufficient to meet these requirements or, if debt or equity financing is available, that it will be on terms acceptable to the Company.

The Company manages liquidity risk by maintaining adequate cash reserves and by continuously monitoring forecast and actual cash flows. Annual capital expenditure budgets are prepared, which are regularly monitored and updated as considered necessary. In addition, the Company requires authorisations for expenditure on both operating and non-operating projects to further manage capital expenditures.

## **RISKS AND UNCERTAINTIES**

Shamaran Petroleum Corp. is engaged in the exploration, development and production of crude oil and natural gas and its operations are subject to various risks and uncertainties which include but are not limited to 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.

The following sections describe material risks identified by the Company; however, risks and uncertainties of which the Company is not currently aware or currently believes to be immaterial could develop and may adversely affect the Company's business, financial condition or operating results. 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 its Annual Information Form, which is available for viewing both on the Company's web-site at [www.shamaranpetroleum.com](http://www.shamaranpetroleum.com) and on SEDAR at [www.sedar.com](http://www.sedar.com), under the Company's profile.

### *Political and Regional Risks*

**International operations:** Oil and gas exploration, development and production activities in emerging countries are subject to significant political, social and economic uncertainties which are beyond Shamaran's control. Uncertainties include, but are not limited to, the risk of war, terrorism, criminal activity, expropriation, nationalisation, renegotiation or nullification of existing or future contracts, the imposition of international sanctions, a change in crude oil or natural gas pricing policies, a change in taxation policies, a limitation on the Company's ability to export, and the imposition of currency controls. The materialisation of these uncertainties could adversely affect the Company's business including, but not limited to, increased costs associated with planned projects, impairment or termination of future revenue generating activities, impairment of the value of the Company's assets and or its ability to meet its contractual commitments as they become due.

**Political uncertainty and potential impact of actions of the Islamic State in Iraq and Syria ("ISIS"):** Shamaran's assets and operations are located in Kurdistan, a federally recognised semi-autonomous political region in Iraq, and may be influenced by political developments between Kurdistan and the Iraq federal government, as well as political developments of neighbouring states within MENA region, Turkey, and surrounding areas. Kurdistan and Iraq have a history of political and social instability. As a result, the Company is subject to political, economic and other uncertainties that are not within its control. These uncertainties include, but are not limited to, changes in government policies and legislation, adverse legislation or determinations or rulings by governmental authorities and disputes between the Iraq federal government and Kurdistan.

Over the last year actions of ISIS continued to represent a security threat in Iraq and the Kurdistan Region of Iraq. If ISIS were to engage in attacks or were to occupy areas within Kurdistan, it could result in the Company and its joint operations partners having to stop operations in the Atrush Block. This could result in delays in operations, additional costs for increased security and difficulty in attracting/retaining qualified service companies and related personnel, which could materially adversely impact the operations and future prospects of the Company and could have a material adverse effect on the Company's business and financial condition.

**International boundary disputes:** Although Kurdistan is recognised by the Iraq constitution as a semi-autonomous region, its geographical extent is neither defined in the Iraq constitution nor agreed in practice between the Federal Government and the KRG. There are ongoing differences between the KRG and the Federal Government regarding certain areas which are commonly known as “disputed territories”. The Company believes that its current area of operation is not within the “disputed territories”.

#### *Industry and Market Risks*

**Exploration, development and production risks:** ShaMaran’s business is subject to all of the risks and hazards inherent in businesses involved in the exploration, development, production and marketing of oil and natural gas, many of which cannot be overcome even with a combination of experience, knowledge and careful evaluation. The risks and hazards typically associated with oil and gas operations include drilling of unsuccessful wells, fire, explosion, blowouts, sour gas releases, pipeline ruptures and oil spills, each of which could result in substantial damage to oil and natural gas wells, production facilities, other property or the environment, or in personal injury. The Company is not fully insured against all of these risks, nor are all such risks insurable and, as a result, these risks could still result in adverse effects to the Company’s business not fully mitigated by insurance coverage including, but not limited to, increased costs or losses due to events arising from accidents or other unforeseen outcomes including cleanup, repair, containment and or evacuation activities, settlement of claims associated with injury to personnel or property, and or loss of revenue as a result of downtime due to accident.

**General market conditions:** ShaMaran’s business and operations depend upon conditions prevailing in the oil and gas industry including the current and anticipated prices of oil and gas and the global economic activity. A reduction of the oil price, a general economic downturn, or a recession could result in adverse effects to the Company’s business including, but not limited to, reduced cash flows associated with the Company’s future oil and gas sales. Worldwide crude oil commodity prices are expected to remain volatile in the near future as a result of global supply and demand balances, actions taken by the Organization of the Petroleum Exporting Countries (“OPEC”), and ongoing global credit and liquidity concerns. This volatility may affect the Corporation’s ability to obtain equity or debt financing on acceptable terms.

**Competition:** The petroleum industry is intensely competitive in all aspects including the acquisition of oil and gas interests, the marketing of oil and natural gas, and acquiring or gaining access to necessary drilling and other equipment and supplies. ShaMaran competes with numerous other companies in the search for and acquisition of such prospects and in attracting skilled personnel. ShaMaran’s competitors include oil companies which have greater financial resources, staff and facilities than those of the Company. ShaMaran’s ability to increase reserves in the future will depend on its ability to develop its present property, to select and acquire suitable producing properties or prospects on which to conduct future exploration and to respond in a cost-effective manner to economic and competitive factors that affect the distribution and marketing of oil and natural gas.

**Reliance on key personnel:** ShaMaran’s success depends in large measure on certain key personnel and directors. The loss of the services of such key personnel could negatively affect ShaMaran’s ability to deliver projects according to plan and result in increased costs and delays. ShaMaran has not obtained key person insurance in respect of the lives of any key personnel. In addition, competition for qualified personnel in the oil and gas industry is intense and there can be no assurance that ShaMaran will be able to attract and retain the skilled personnel necessary for the operation and development of its business.

#### *Business Risks*

**Risks associated with petroleum contracts in Iraq:** The Iraq oil ministry has historically disputed the validity of the KRG’s production sharing contracts and, as a result indirectly, the Company’s right and title to its oil and gas assets. The KRG is disputing the claims and has stated that the contracts are compliant with the Iraq constitution. At the present time there is no assurance that production sharing contracts agreed with the KRG are enforceable or binding in accordance with ShaMaran’s interpretation of their terms or that, if breached, the Company would have remedies. The Company believes that it has valid title to its oil and gas assets and the right to explore for and produce oil and gas from such assets under the Atrush PSC. However, should the Iraq federal government pursue and be successful in a claim that the production sharing contracts agreed with the KRG are invalid, or should any unfavourable changes develop which impact on the economic and operating terms of the Atrush PSC, it could result in adverse effects to the Company’s business including, but not limited to, impairing the Company’s claim and title to assets held, and or increasing the obligations required, under the Atrush PSC.

**Government regulations, licenses and permits:** The Company is affected by changes in taxes, regulations and other laws or policies affecting the oil and gas industry generally as well as changes in taxes, regulations and other laws or policies applicable to oil and gas exploration and development in Kurdistan specifically. The Company's ability to execute its projects may be hindered if it cannot secure the necessary approvals or the discretion is exercised in a manner adverse to the Company. The taxation system applicable to the operating activities of the Company in Kurdistan is pursuant to the Oil and Gas Law governed by general Kurdistan tax law and the terms of its production sharing contracts. However, it is possible that the arrangements under the production sharing contracts may be overridden or negatively affected by the enactment of any future oil and gas or tax law in Iraq or Kurdistan which could result in adverse effects to the Company's business including, but not limited to, increasing the Company's expected future tax obligations associated with its activities in Kurdistan.

**Marketing, markets and transportation:** The export of oil and gas and payments relating to such exports from Kurdistan remains subject to uncertainties which could negatively impact on ShaMaran's ability to export oil and gas and receive payments relating to such exports. Potential government regulation relating to price, quotas and other aspects of the oil and gas business could result in adverse effects to the Company's business including, but not limited to, impairing the Company's ability to export and sell oil and gas and receive full payment for all sales of oil and gas.

**Payments for oil exports:** Companies who have exported oil from Kurdistan since the year 2009 have reported significant amounts outstanding for past oil exports. Cash payments to oil companies for oil exported from Kurdistan has been under control of the KRG since the beginning of exports in 2009. Since February 1, 2016, when the KRG announced an interim measure whereby monthly payments to oil companies would be made based on an agreed mechanism, the KRG has established a relatively consistent record of delivering regular monthly payments to oil companies for their entitlement revenues in respect of monthly petroleum production, with producers' most recent reports indicating having received in March 2017 full payments for December 2016 oil exported. Nevertheless there remains a risk that the Company may face significant delays in the receipt of cash for its entitlement share of future oil exports.

**Paying interest:** On November 7, 2016 the KRG exercised its back-in right under the terms of the Atrush PSC and acquired a 25% participating interest. Upon the commencement of oil production exports from Atrush the KRG is required to pay its share of project development costs. There is a risk that the Contractors may be exposed to fund the KRG share of future project development costs.

**Default under the Atrush PSC and Atrush JOA:** Should the Company fail to meet its obligations under the Atrush PSC and or Atrush Block joint operating agreement ("Atrush JOA") it could result in adverse effects to the Company's business including, but not limited to, a default under one or both of these contracts, the termination of future revenue generating activities of the Company and impairment of the Company's ability to meet its contractual commitments as they become due.

**Kurdistan legal system:** The Kurdistan Region of Iraq has a less developed legal system than that of many more established regions. This could result in risks associated with predicting how existing laws, regulations and contractual obligations will be interpreted, applied or enforced. In addition it could make it more difficult for the Company to obtain effective legal redress in courts in case of breach of law, regulation or contract and to secure the implementation of arbitration awards and may give rise to inconsistencies or conflicts among various laws, regulations, decrees or judgments. The Company's recourse may be limited in the event of a breach by a government authority of an agreement governing the Atrush PSC in which ShaMaran acquires or holds an interest.

**Enforcement of judgments in foreign jurisdictions:** The Company is party to contracts with counterparties located in a number of countries, most notably Kurdistan. Certain of its contracts are subject to English law with legal proceedings in England. However, the enforcement of any judgments thereunder against a counterparty will be a matter of the laws of the jurisdictions where counterparties are domiciled.

**Change of control in respect of the Atrush PSC:** The Atrush PSC definition of "change of control" in a Contractor includes a change of voting majority in the Contractor, or in a parent company, provided the value of the interest in the Atrush field represents more than 50% of the market value of assets in the Company. Due to the limited amount of other assets held by the Company this will apply to a change of control in GEP or any of its parent companies. Change of control requires the consent of KRG or it will trigger a default under the Atrush PSC.

### *Project and Operational Risks*

**Shared ownership and dependency on partners:** ShaMaran's operations are to a significant degree conducted together with one or more partners through contractual arrangements with the execution of the operations being undertaken by the Operator in accordance with the terms of the Atrush JOA. As a result, ShaMaran has limited ability to exercise influence over the deployment of those assets or their associated costs and this could adversely affect ShaMaran's financial performance. If the operator or other partners fail to perform, ShaMaran may, among other things, risk losing rights or revenues or incur additional obligations or costs in order to itself perform in place of its partners. If a dispute would arise with one or more partners such dispute may have significant negative effects on the Company's operations relating to its projects.

**Security risks:** Kurdistan and other regions in Iraq have a history of political and social instability which have culminated in security problems which may put at risk the safety of the Company's personnel, interfere with the efficient and effective execution of the Company's operations and ultimately result in significant losses to the Company. There have been no significant security incidents in the Company's area of operation.

**Risks relating to infrastructure:** The Company is dependent on access to available and functioning infrastructure (including third party services in Kurdistan) relating to the properties on which it operates, such as roads, power and water supplies, pipelines and gathering systems. If any infrastructure or systems failures occur or access is not possible or does not meet the requirements of the Company, the Company's operations may be significantly hampered which could result in lower production and sales and or higher costs.

**Environmental regulation and liabilities:** Drilling for and producing, handling, transporting and disposing of oil and gas and petroleum by-products are activities that are subject to extensive regulation under national and local environmental laws, including in those countries in which ShaMaran currently operates. The Company has implemented health, safety and environment policies since its incorporation, complies with industry environmental practices and guidelines for its operations in Kurdistan and is currently in compliance with these obligations in all material aspects. Environmental protection requirements have not, to date, had a significant effect on the capital expenditures and competitive position of ShaMaran. Future changes in environmental or health and safety laws, regulations or community expectations governing the Company's operations could result in adverse effects to the Company's business including, but not limited to, increased monitoring, compliance and remediation costs and or costs associated with penalties or other sanctions imposed on the Company for non-compliance or breach of environmental regulations.

**Risk relating to community relations / labour disruptions:** The Company's operations may be located in or near communities that may regard operations as detrimental to their environmental, economic or social circumstances. Negative community reactions and any related labour disruptions or disputes could increase operational costs and result in delays in the execution of projects.

**Petroleum costs and cost recovery:** Under the terms of the Atrush PSC the KRG is entitled to conduct an audit to verify the validity of incurred petroleum costs which the Operator has reported to the KRG and is therefore entitled under the terms of the Atrush PSC to recover through cash payments from future petroleum production. No such audit has to date taken place. Should any future audits result in negative findings concerning the validity of reported incurred petroleum costs the Company's petroleum cost recovery entitlement could ultimately be reduced.

**Legal claims and disputes:** The Company may suffer unexpected costs or other losses if a counterparty to any contractual arrangement entered into by the Company does not meet its obligations under such agreements. In particular, the Company cannot control the actions or omissions of its partners in the Atrush PSC. If such parties were to breach the terms of the Atrush PSC or any other documents relating to the Company's interest in the Atrush PSC, it could cause the KRG to revoke, terminate or adversely amend the Atrush PSC.

**Uninsured losses and liabilities:** Although the Company maintains insurance in accordance with industry standards to address risks relating to its operations, the insurance coverage may under certain circumstances not protect it from all potential losses and liabilities that could result from its operations.

**Availability of equipment and services:** ShaMaran's oil and natural gas exploration and development activities are dependent on the availability of third party services, drilling and related equipment and qualified staff in the particular areas where such activities are or will be conducted. Shortages of such equipment or staff may affect the availability of such equipment to ShaMaran and may delay and or increase the cost of ShaMaran's exploration and development activities.



**Early stage of development:** ShaMaran has conducted oil and gas exploration and development activities in Kurdistan for approximately seven years. The current operations are in an appraisal and development stage and there can be no assurance that ShaMaran's operations will be profitable in the future or will generate sufficient cash flow to satisfy its future commitments.

#### *Financial and Other Risks*

**Financial statements prepared on a going concern basis:** The Company's financial statements have been prepared on a going concern basis under which an entity is considered to be able to realise its assets and satisfy its liabilities in the ordinary course of business. ShaMaran's operations to date have been primarily financed by debt and equity financing. The Company's future operations are dependent upon the identification and successful completion of additional equity or debt financing or the achievement of profitable operations. There can be no assurances that the Company will be successful in completing additional financing or achieving profitability. The consolidated financial statements do not give effect to any adjustments relating to the carrying values and classification of assets and liabilities that would be necessary should ShaMaran be unable to continue as a going concern.

**Substantial capital requirements:** ShaMaran anticipates making substantial capital expenditures in the future for the acquisition, exploration, development and production of oil and gas. ShaMaran's results could impact its access to the capital necessary to undertake or complete future drilling and development programs. To meet its operating costs and planned capital expenditures, ShaMaran may require financing from external sources, including from the sale of equity and debt securities. There can be no assurance that such financing will be available to the Company or, if available, that it will be offered on terms acceptable to ShaMaran. If ShaMaran or any of its partners in the oil asset are unable to complete minimum work obligations on the Atrush PSC, this PSC could be relinquished under applicable contract terms.

**Dilution:** The Company may make future acquisitions or enter into financings or other transactions involving the issuance of securities of the Company. If additional financing is raised through the issuance of equity or convertible debt securities, control of the Company may change and the interests of shareholders in the net assets of ShaMaran may be diluted.

**Tax legislation:** The Company has entities incorporated and resident for tax purposes in Canada, the Cayman Islands, the Kurdistan Region of Iraq, the Netherlands, Switzerland and the United States of America. Changes in the tax legislation or tax practices in these jurisdictions may increase the Company's expected future tax obligations associated with its activities in such jurisdictions.

**Capital and lending markets:** As a result of general economic uncertainties and, in particular, the potential lack of risk capital available to the junior resource sector, the Company, along with other junior resource entities, may have reduced access to bank debt and to equity. As future capital expenditures will be financed out of funds generated from operations, bank borrowings if available, and possible issuances of debt or equity securities, the Company's ability to do so is dependent on, among other factors, the overall state of lending and capital markets and investor and lender appetite for investments in the energy industry generally, and the Company's securities in particular. To the extent that external sources of capital become limited or unavailable or available only on onerous terms, the Company's ability to invest and to maintain existing assets may be impaired, and its assets, liabilities, business, financial condition and results of operations may be materially and adversely affected as a result.

**Uncertainty in financial markets:** In the future the Company is expected to require financing to grow its business. The uncertainty which has periodically affected the financial markets in recent years and the possibility that financial institutions may consolidate or go bankrupt has reduced levels of activity in the credit markets which could diminish the amount of financing available to companies. The Company's liquidity and its ability to access the credit or capital markets may also be adversely affected by changes in the financial markets and the global economy.

**Conflict of interests:** Certain directors of ShaMaran are also directors or officers of other companies, including oil and gas companies, the interests of which may, in certain circumstances, come into conflict with those of ShaMaran. If and when a conflict arises with respect to a particular transaction, the affected directors must disclose the conflict and abstain from voting with respect to matters relating to the transaction.

### *Risks Related to the GEP's Senior Bonds and Super Senior Bonds*

**Possible termination of Atrush PSC / bond agreements in event of default scenario:** Should GEP default its obligations under either of the bond agreements GEP may also not be able to fulfil its obligations under the Atrush PSC and or Atrush JOA, with the effect that these contracts may be terminated or limited. In addition, should GEP default its obligations under the Atrush PSC and or Atrush JOA, with the effect that these contracts may be terminated or limited, GEP may also default in respect of its obligations under the bond agreements. Either default scenario could result in the termination of the Company's future revenue generating activities and impair the Company's ability to meet its contractual commitments as they become due.

**Ability to service indebtedness:** GEP's ability to make scheduled payments on or to refinance its obligations under the bond agreements will depend on GEP's financial and operating performance which, in turn, will be subject to prevailing economic and competitive conditions beyond GEP's control. It is possible that GEP's activities will not generate sufficient funds to make the required interest payments which could, among other things, result in an event of default under the bond agreements.

**Significant operating and financial restrictions:** The terms and conditions of the bond agreements contain restrictions on GEP's and the Guarantors' activities which restrictions may prevent GEP and the Guarantors from taking actions that it believes would be in the best interest of GEP's business, and may make it difficult for GEP to execute its business strategy successfully or compete effectively with companies that are not similarly restricted. No assurance can be given that it will be granted the necessary waivers or amendments if for any reason GEP is unable to comply with the terms of the bond agreements. A breach of any of the covenants and restrictions could result in an event of default under the bond agreements.

**Mandatory prepayment events:** Under the terms of the bond agreements the bonds are subject to mandatory prepayment by GEP on the occurrence of certain specified events, including if (i) the ownership in the Atrush Block is reduced to below 20.10% (ii) ShaMaran Petroleum Corp. ceases to indirectly own, or ShaMaran Ventures B.V. ceases to directly own, 100% of the shares in GEP (iii) GEP invests in any assets or enters into any other activities unrelated to the Atrush PSC or (iv) an event of default occurs under either of the bond agreements. Following an early redemption after the occurrence of a mandatory prepayment event, it is possible that GEP will not have sufficient funds to make the required redemption of the bonds which could, among other things, result in an event of default under the bond agreements.

## **ATRUSH OUTLOOK**

### *Production Facility*

The construction of the 30,000 bopd Atrush Phase 1 Production Facility is complete. Commissioning is in progress and is expected to be complete in advance of the Feeder Pipeline. First oil is expected in the second quarter of 2017.

Plans for 2017 include the engineering and design of gas sweetening facilities, the installation of water handling facilities and the installation of 100,000 bbls of oil storage capacity.

It is also planned to conduct extended testing of the CK-6 well and possibly the AT-3 well, both of which are located on the eastern side of the Atrush Block. This would involve the installation of temporary production facilities near the Chamanke-C well pad and the delivery by truck of oil to the main Phase I Production Facilities.

### *Oil Export Pipeline*

The construction of the Spur Pipeline, the pump station and the IPPR is substantially complete and will be ready before first oil production.

Work has commenced on the Feeder Pipeline which will ultimately be owned by the KRG. The complexity of commercial and legal discussions has led to delays in the start of construction of the Feeder Pipeline. Completion expected in the second quarter of 2017. Production is planned to begin after the Feeder Pipeline is commissioned.

### *Wells*

AT-2, the final of four initial producing wells all equipped with electric submersible pumps, was completed in the third quarter of this year. The four initial producing wells are all connected to the Production Facility and now ready for start up.

Plans in 2017 are to drill and test CK-7, an appraisal and development well located in the central area of the Atrush Block, and CK-9, a dedicated water disposal well.

## **New Ventures**

As part of its normal business the Company continues to evaluate new opportunities.

## **FORWARD LOOKING INFORMATION**

This report contains forward-looking information and forward-looking statements. Forward-looking information concerns possible events or financial performance that is based on management's assumptions concerning anticipated developments in the Company's operations; the adequacy of the Company's financial resources; financial projections, including, but not limited to, estimates of capital and operating costs, production rates, commodity prices, exchange rates, net present values; and other events and conditions that may occur in the future. Information concerning the interpretation of drill results and reserve estimates also may be deemed to be forward-looking information, as it constitutes a prediction of what might be found to be present if and when a project is actually developed.

Forward-looking statements are statements that are not historical and are frequently, but not always, identified by the words such as "expects," "anticipates," "believes," "intends," "estimates," "potential," "possible," "outlook", "budget" and similar expressions, or statements that events, conditions or results "will," "may," "could," or "should" occur or be achieved. Forward-looking statements are statements about the future and are inherently uncertain, and actual achievements of the Company or other future events or conditions may differ materially from those reflected in the forward-looking statements due to a variety of risks, uncertainties and other factors, including, without limitation, those described in this MD&A.

The Company's forward-looking information and forward-looking statements are based on the beliefs, expectations and opinions of management on the date the statements are made. Management is regularly considering and evaluating assumptions that will impact on future performance. Those assumptions are exposed to generic risks and uncertainties as well as risks and uncertainties that are specifically related to the Company's operations.

The Company cautions readers regarding the reliance placed by them on forward-looking information as by its nature, it is based on current expectations regarding future events that involve a number of assumptions, inherent risks and uncertainties, which could cause actual results to differ materially from those anticipated by the Company.

Except as required by applicable securities legislation the Company assumes no obligation to update its forward-looking information and forward-looking statements in the future. For the reasons set forth above, investors should not place undue reliance on forward-looking information and forward-looking statements.

## **ADDITIONAL INFORMATION**

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



**ShaMaran Petroleum Corp.**  
**Audited Consolidated Financial Statements**  
**For the year ended December 31, 2016**



# Auditor's Report

9 March 2017

## **Independent Auditor's Report To the Shareholders of ShaMaran Petroleum Corp.**

We have audited the accompanying consolidated financial statements of ShaMaran Petroleum Corp., which comprise the Consolidated Balance Sheet as at 31 December 2016 and 31 December 2015 and the Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity and Consolidated Statement of Cash Flows for the years ended 31 December 2016 and 31 December 2015, and the related notes including a summary of significant accounting policies and other explanatory information.

### **Management's responsibility for the consolidated financial statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian Generally Accepted Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated Balance Sheet of ShaMaran Petroleum Corp. as at 31 December 2016 and 31 December 2015 and its financial performance and its cash flows for the years ended 31 December 2016 and 31 December 2015 in accordance with International Financial Reporting Standards.

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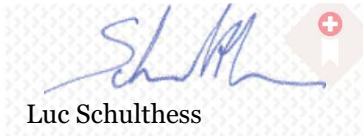
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### Emphasis of matter – going concern

In forming our opinion on the consolidated financial statements, which is not modified, we have considered the adequacy of the disclosures made in Note 2 to the consolidated financial statements concerning the company's ability to continue as a going concern. Although the company is confident that it has sufficient funds available, there is uncertainty surrounding the timing and amounts of cash receipts commencing from first oil and the level of project development costs that the company may be required to fund in order to realise receipts from oil sales to its customers. The uncertainty with regard to the timing and extent of these cash receipts and cash payments at the date of approval of the consolidated financial statements indicates the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern. The consolidated financial statements do not include the adjustments that would result if the company was unable to continue as a going concern.

PricewaterhouseCoopers SA

A blue ink signature of Luc Schulthess is shown on a light blue grid background. To the right of the signature is a small red circular icon containing a white plus sign.

Luc Schulthess

A blue ink signature of Colin Johnson is shown on a light blue grid background. To the right of the signature is a small red circular icon containing a white plus sign.

Colin Johnson

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**SHAMARAN PETROLEUM CORP.**  
**Consolidated Statement of Comprehensive Income**  
*(Expressed in thousands of United States dollars, except for per share data)*

	Note	For the year ended December 31,	
		2016	2015
<b>Continuing Operations</b>			
<b>Income</b>			
Service fees	6	120	-
<b>Expenses</b>			
Impairment loss	12	-	(244,557)
Depreciation and amortisation expense		(45)	(56)
Share based payments expense	20	(249)	(1,210)
General and administrative expense	7	(3,811)	(2,359)
<b>Loss before finance items and income tax expense</b>		<b>(4,105)</b>	<b>(248,182)</b>
Finance income	8	484	681
Finance cost	9	(5,586)	(5,321)
<b>Net finance cost</b>		<b>(5,102)</b>	<b>(4,640)</b>
<b>Loss before income tax expense</b>		<b>(9,087)</b>	<b>(252,822)</b>
Income tax expense	10	(69)	(94)
<b>Loss from continuing operations</b>		<b>(9,156)</b>	<b>(252,916)</b>
<b>Discontinued operations</b>			
Net gain from discontinued operations	11	-	33
<b>Loss for the year</b>		<b>(9,156)</b>	<b>(252,883)</b>
<b>Other comprehensive income</b>			
<i>Items that may be reclassified to profit or loss:</i>			
Currency translation differences		22	(18)
Actuarial gain on defined pension plan	18	15	-
<b>Total other comprehensive income / (loss)</b>		<b>37</b>	<b>(18)</b>
<b>Total comprehensive loss for the year</b>		<b>(9,119)</b>	<b>(252,901)</b>
<b>Loss in dollars per share:</b>			
Continuing operations			
Basic and diluted	19	(0.01)	(0.17)
Discontinued operations			
Basic and diluted	19	-	-
Continuing and discontinued operations			
Basic and diluted	19	(0.01)	(0.17)

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

**SHAMARAN PETROLEUM CORP.**  
**Consolidated Balance Sheet**  
*(Expressed in thousands of United States dollars)*

	Note	As at December 31,	
		2016	2015
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	12	174,658	177,044
Intangible assets	13	89,007	88,645
Loans and receivables	14	46,114	-
		<b>309,779</b>	<b>265,689</b>
<b>Current assets</b>			
Loans and receivables	14	7,252	-
Cash and cash equivalents, unrestricted	16	4,416	30,409
Cash and cash equivalents, restricted	16	-	1,512
Other current assets		224	200
		<b>11,892</b>	<b>32,121</b>
<b>Total assets</b>		<b>321,671</b>	<b>297,810</b>
<b>Liabilities and equity</b>			
<b>Current liabilities</b>			
Accounts payable and accrued expenses	15	6,434	9,560
Accrued interest expense on bonds	16	2,503	2,252
Current tax liabilities		-	31
		<b>8,937</b>	<b>11,843</b>
<b>Non-current liabilities</b>			
Borrowings	16	165,129	148,263
Provisions	17	8,869	8,080
Pension liability	18	1,670	-
		<b>175,668</b>	<b>156,343</b>
<b>Total liabilities</b>		<b>184,605</b>	<b>168,186</b>
<b>Equity</b>			
Share capital	19	611,179	593,179
Share based payments reserve		6,484	6,235
Cumulative translation adjustment		(61)	(83)
Accumulated deficit		(480,536)	(469,707)
<b>Total equity</b>		<b>137,066</b>	<b>129,624</b>
<b>Total liabilities and equity</b>		<b>321,671</b>	<b>297,810</b>

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

Signed on behalf of the Board of Directors:

/s/Ashley Heppenstall

C. Ashley Heppenstall, Director

/s/Keith Hill

Keith C. Hill, Director



**SHAMARAN PETROLEUM CORP.**  
**Consolidated Statement of Changes in Equity**  
*(Expressed in thousands of United States dollars)*

	Share capital	Share based payments reserve	Cumulative translation adjustment	Accumulated deficit	Total
<b>Balance at January 1, 2015</b>	<b>534,068</b>	<b>5,025</b>	<b>(65)</b>	<b>(216,824)</b>	<b>322,204</b>
Total comprehensive loss for the year:					
Loss for the year	-	-	-	(252,883)	<b>(252,883)</b>
Other comprehensive loss	-	-	(18)	-	<b>(18)</b>
	-	-	(18)	(252,883)	<b>(252,901)</b>
Transactions with owners in their capacity as owners:					
Share based payments expense	-	1,210	-	-	<b>1,210</b>
Shares issued on Rights Offering	60,462	-	-	-	<b>60,462</b>
Transaction costs	(1,351)	-	-	-	<b>(1,351)</b>
	59,111	1,210	-	-	<b>60,321</b>
<b>Balance at December 31, 2015</b>	<b>593,179</b>	<b>6,235</b>	<b>(83)</b>	<b>(469,707)</b>	<b>129,624</b>
Pension liability adjustment:					
Balance at January 1, 2016	-	-	-	(1,688)	<b>(1,688)</b>
<b>Balance at January 1, 2016</b>	<b>593,179</b>	<b>6,235</b>	<b>(83)</b>	<b>(471,395)</b>	<b>127,936</b>
Total comprehensive loss for the year:					
Loss for the year	-	-	-	(9,156)	<b>(9,156)</b>
Other comprehensive income	-	-	22	15	<b>37</b>
	-	-	22	(9,141)	<b>(9,119)</b>
Transactions with owners in their capacity as owners:					
Share based payments expense	-	249	-	-	<b>249</b>
Shares issued	18,000	-	-	-	<b>18,000</b>
	18,000	249	-	-	<b>18,249</b>
<b>Balance at December 31, 2016</b>	<b>611,179</b>	<b>6,484</b>	<b>(61)</b>	<b>(480,536)</b>	<b>137,066</b>

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

**SHAMARAN PETROLEUM CORP.**  
**Consolidated Statement of Cash Flows**  
*(Expressed in thousands of United States dollars)*

	Note	For the year ended December 31,	
		2016	2015
<b>Operating activities</b>			
Net loss from continuing operations		(9,156)	(252,916)
Adjustments for:			
Interest expense on borrowings – net		5,518	5,285
Share based payments expense	20	249	1,210
Unwinding discount on decommissioning provision		68	36
Depreciation and amortisation expense		45	56
Actuarial gain on pension plan		15	-
Foreign exchange gain	8,9	-	(492)
Impairment loss		-	244,557
Interest income		(484)	(189)
Change in pension liability		(18)	-
Changes in other current assets		(24)	1,405
Changes in current tax liabilities		(31)	(10)
Changes in accounts payable and accrued expenses		(3,126)	(2,147)
Cash used in discontinued operations		-	(18)
<b>Net cash outflows to operating activities</b>		<b>(6,944)</b>	<b>(3,223)</b>
<b>Investing activities</b>			
Interest received on cash deposits		44	189
Purchases of intangible assets		(7)	(60,271)
Loans and receivables – advances to joint venture partner		(4,769)	-
Purchase of property, plant and equipment		(32,073)	(4,311)
<b>Net cash outflows to investing activities</b>		<b>(36,805)</b>	<b>(64,393)</b>
<b>Financing activities</b>			
Proceeds on bond issue		17,000	-
Bond transaction costs		(777)	-
Shares issued on Rights Offering		-	60,462
Transaction costs on Rights Offering		-	(1,351)
Interest payments to bondholders		-	(17,250)
<b>Net cash inflows from financing activities</b>		<b>16,223</b>	<b>41,861</b>
Effect of exchange rate changes on cash and cash equivalents		21	472
<b>Change in cash and cash equivalents</b>		<b>(27,505)</b>	<b>(25,283)</b>
Cash and cash equivalents, beginning of the year		31,921	57,204
<b>Cash and cash equivalents, end of the year*</b>		<b>4,416</b>	<b>31,921</b>
<b>*Inclusive of restricted cash</b>	16	-	<b>1,512</b>

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

**SHAMARAN PETROLEUM CORP.**  
**Notes to the Consolidated Financial Statements**  
**For the year ended December 31, 2016**  
*(Expressed in thousands of United States dollars unless otherwise stated)*

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**1. General information**

ShaMaran Petroleum Corp. (“ShaMaran” and together with its subsidiaries the “Company”) is incorporated under the Business Corporations Act, British Columbia, Canada. The address of the registered office is Suite 2600 Oceanic Plaza, 1066 West Hastings Street, Vancouver, British Columbia V6E 3X1. The Company’s shares trade on the TSX Venture Exchange and NASDAQ First North Exchange (Stockholm) under the symbol “SNM”.

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

**2. Basis of preparation and going concern**

**a. Basis of preparation**

These 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 that are effective beginning on January 1, 2016, under the historical cost convention. The significant accounting policies of the Company have been applied consistently throughout the year. The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company’s accounting policies.

These consolidated financial statements were approved for issuance by the Board of Directors on March 9, 2017.

**b. Going concern**

These 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.

The ability of the Company to continue as a going concern and to successfully carry out its business plan is primarily dependent upon the continued support of its shareholders, the resolution of remaining political disputes in Iraq and the ability of the Company to obtain additional financing for its activities to develop, produce and sell economically recoverable reserves.

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. A number of uncertainties outside the control of the Company could impact its ability to fund its obligations without securing additional financing including the completion according to plan and proper functioning of production facilities and pipelines, the stability of the oil price, the timing of cash receipts from the sale of oil and the Company’s obligations under the 2017 Atrush work program and budget.

At December 31, 2016 ShaMaran held cash and cash equivalents of \$4.4 million. Management cash flow forecasts for the 12 months ended December 31, 2017 include cash inflows of \$39 million from oil sales and \$26.4 million from ShaMaran common shares issued in January 2017 and cash outflows of \$50 million on Atrush development, Atrush Feeder Pipeline costs and technical and administrative costs in support of Atrush operations. The oil sales volume assumptions reflect production commencing in the second quarter of 2017 and reaching, shortly thereafter, a rate of 30,000 barrels of oil per day which reflects the planned capacity of the Atrush production facility and that all crude oil produced from Atrush will be delivered, sold and paid for in accordance with the terms of the Atrush PSC two months following the month of production. The forecasted cash flow includes an average oil price of \$58 per barrel based on ICE Brent forward contract prices as of the balance sheet date and a \$12 per barrel discount for transportation costs and quality differentials. The price discount, delivery, sales and payment assumptions are consistent with observed practice in Kurdistan since mid-2015. The timing and extent of Atrush development costs is based on the Operator’s latest forecasts for the 2017 work program while the technical and administrative support costs are management’s latest estimates for these forthcoming requirements.

**SHAMARAN PETROLEUM CORP.**  
**Notes to the Consolidated Financial Statements**  
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*(Expressed in thousands of United States dollars unless otherwise stated)*

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

Management continues to monitor its financing requirements and consider appropriate financing alternatives which include a facility under the Company’s existing bond agreements allowing for the Company to propose the issuance of up to an additional \$33 million of bonds under the same bond terms. Management estimates this financing source could be administered within two months. However, in the event that an offering of additional bonds cannot be completed, or that the Company could not secure external financing in an amount required to meet its obligations as they come due, the Company may be required to take measures such as divestment of assets and or further renegotiation of its debt. Should this not be successful, there is a risk that the Company would be subject to a partial or complete reorganization, or that the Company is declared bankrupt.

The Company believes that based on the forecasts and projections they have prepared and potential financing alternatives which will be pursued as required the Company will have the resources sufficient to satisfy its contractual obligations and commitments over the next 12 months and to continue as a going concern for the foreseeable future. Nevertheless the possibility remains that the Company’s operations and current and future financial resources could be significantly affected by adverse geopolitical events in the region, macroeconomic conditions or other risks, including uncertainty surrounding oil production forecasted to commence in the second quarter of 2017 and the level of project development costs that the Company may be required to fund. The potential that the Company’s financial resources are insufficient to fund its appraisal, development and production activities for the next 12 months, particularly in case there are unforeseen delays in oil production or receipt of funds from oil sales, indicates a material uncertainty which may cast significant doubt over the Company’s ability to continue as a going concern. These consolidated financial statements do not include the adjustments that would result if the Company is unable to continue as a going concern.

Refer also to Notes 16, 22 and 25.

### **3. Significant accounting policies**

#### **(a) Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries, entities controlled by the Company which apply accounting policies consistent with those of the Company. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. Subsidiaries are fully consolidated from the date on which control is obtained by the Company and are de-consolidated from the date that control ceases.

Intercompany balances and unrealised gains and losses on intercompany transactions are eliminated upon consolidation.

#### **(b) Interest in joint operations**

A joint operation is a contractual arrangement whereby the Company and other parties undertake an economic activity that is subject to joint control.

Where the Company undertakes its activities under joint operation arrangements directly, the Company’s share of jointly controlled operations and any liabilities incurred jointly with other joint operations are recognised in the financial statements of the relevant company and classified according to their nature.

**SHAMARAN PETROLEUM CORP.**  
**Notes to the Consolidated Financial Statements**  
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Liabilities and expenses incurred directly in respect of interests in jointly controlled operations are accounted for on an accrual basis. Income from the sale or use of the Company's share of the output of jointly controlled operations and its share of the joint operations are recognised when it is probable that the economic benefit associated with the transactions will flow to/from the Company and the amount can be reliably measured.

**(c) Business combinations**

The acquisition method of accounting is used to account for business combinations. The consideration transferred is measured at the aggregate of the fair values at the date of acquisition of assets given, liabilities incurred or assumed and equity instruments issued by the Company in exchange for control of the acquiree. Acquisition related costs are expensed as incurred. The identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under *IFRS 3 Business Combinations* are recognised at their fair value at the acquisition date.

If the Company acquires control of an entity in more than one transaction the related investment held by the Company immediately before the last transaction when control is acquired is considered sold and immediately repurchased at the fair value of the investment on the date of acquisition. Any difference between the fair value and the carrying amount of the investment results in income or loss recognised in the statement of comprehensive income.

**(d) Non-current assets held for sale and discontinued operations**

Non-current assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are measured at the lower of carrying amount and fair value less costs to sell.

The results of a component of the Company that represent a major line of business or geographical area of operations that has either been disposed of (by sale, abandonment or spin-off) or is classified as held for sale is reported as discontinued operations. The financial statements of the Company include amounts and disclosures pertaining to discontinued operations in accordance with *IFRS 5 Non-current Assets Held for Sale and Discontinued Operations*.

**(e) Foreign currency translation**

***Functional and presentation currency***

Items included in the financial statements of each of the Company's subsidiaries are measured using the currency of the primary economic environment in which the subsidiary operates (the "functional currency"). The functional and presentation currency of the Company is the United States dollar ("USD").

The results and financial position of subsidiaries that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities are translated at the closing exchange rate at the date of that balance sheet.
- Income and expenses are translated at the average exchange rate for the period in which they were incurred as a reasonable approximation of the cumulative effect of rates prevailing on transaction dates.
- All resulting exchange differences are recognised in other comprehensive income as part of the cumulative translation reserve.

***Transactions and balances***

Transactions in currencies other than the functional currency are recorded in the functional currency at the exchange rates prevailing on the dates of the transactions or valuation where items are re-measured. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at the balance sheet date. Exchange differences are recognised in the statement of comprehensive income during the period in which they arise.

**SHAMARAN PETROLEUM CORP.**  
**Notes to the Consolidated Financial Statements**  
**For the year ended December 31, 2016**  
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**(f) Exploration and evaluation costs and other intangible assets**

***Exploration and evaluation assets***

The Company applies the full cost method of accounting for exploration and evaluation (“E&E”) costs in accordance with the requirements of *IFRS 6 Exploration for and Evaluation of Mineral Resources*. All costs of exploring and evaluating oil and gas properties are accumulated and capitalised to the relevant property contract area and are tested on a cost pool basis as described below.

*Pre-license costs:*

Costs incurred prior to having obtained the legal rights to explore an area are expensed directly to the statement of comprehensive income.

*Exploration and evaluation costs:*

All E&E costs are initially capitalised as E&E assets and include payments to acquire the legal right to explore, costs of technical services and studies, seismic acquisition, exploratory drilling and testing.

Tangible assets used in E&E activities such as the Company’s vehicles, drilling rigs, seismic equipment and other property, plant and equipment (“PP&E”) used by the Company’s exploration function are classified as PP&E. To the extent that such tangible assets are consumed in exploring and evaluating a property the amount reflecting that consumption is recorded as part of the cost of the intangible asset. Such intangible costs include directly attributable overhead including the depreciation of PP&E utilised in E&E activities together with the cost of other materials consumed during the E&E phases such as tubulars and wellheads.

E&E costs are not depreciated prior to the commencement of commercial production.

*Treatment of E&E assets at conclusion of appraisal activities:*

E&E assets are carried forward until commercial viability has been established for a contractual area which normally coincides with the commencement of commercial production. The E&E assets are then assessed for impairment and the carrying value after any impairment loss is then reclassified as oil and gas assets within PP&E. Until commercial viability has been established E&E assets remain capitalised at cost less accumulated amortisation and are subject to the impairment test set out below. Such E&E assets are depreciated on a unit of production basis over the life of the commercial reserves attributed to the cost pool to which they relate.

***Other intangible assets***

Other intangible assets are carried at measured cost less accumulated amortisation and any recognised impairment loss and are amortised on a straight-line basis over their expected useful economic lives as follows:

- Computer software and associated costs                      3 years

**(g) Property, plant and equipment**

***Oil and gas assets***

Oil and gas assets comprise of development and production costs for areas where technical feasibility and commercial viability have been established and include any E&E assets transferred after conclusion of appraisal activities as well as costs of development drilling, completion, gathering and production infrastructure, directly attributable overheads, borrowing costs capitalised and the cost of recognising provisions for future restoration and decommissioning. Oil and gas costs are accumulated separately for each contract area.

*Depletion of oil and gas assets:*

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 taking into account future development expenditures necessary to bring those reserves into production.

**SHAMARAN PETROLEUM CORP.**  
**Notes to the Consolidated Financial Statements**  
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*(Expressed in thousands of United States dollars unless otherwise stated)*

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**Other property, plant and equipment**

Other property, plant and equipment include expenditures that are directly attributable to the acquisition of an asset. Subsequent costs are included in the assets' carrying value or recognised as a separate asset as appropriate only when it is probable that future economic benefits associated with the item will flow to the Company and the cost can be measured reliably.

Repairs and maintenance costs are charged to the statement of comprehensive income during the period in which they are incurred.

The carrying amount of an item of PP&E is derecognised on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the statement of comprehensive income during the period.

Other property, plant and equipment assets are carried at cost less accumulated depreciation and any recognised impairment loss and are depreciated on a straight-line basis over their expected useful economic lives as follows:

- Furniture and office equipment                      5 years
- Computer equipment                                      3 years

**(h) Impairment of non-financial assets**

E&E assets and oil and gas assets are assessed for impairment when facts and circumstances suggest that the carrying amount may exceed its recoverable amount. Such indicators 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 amount of either of the E&E or the 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 the purpose of 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.

**(i) Financial instruments**

Financial assets and liabilities are recognised in the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognised when the contractual rights to cash flows from the assets expire or the Company transfers the financial asset and substantially all the risks and rewards of ownership. The Company derecognises financial liabilities when the Company's obligations are discharged, cancelled or expire.

**SHAMARAN PETROLEUM CORP.**  
**Notes to the Consolidated Financial Statements**  
**For the year ended December 31, 2016**  
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***Classification and measurement***

The Company classifies its financial assets and liabilities at initial recognition in the following categories:

- Financial assets and liabilities at fair value through profit or loss are those assets and liabilities acquired principally for the purpose of selling or repurchasing in the short-term and are recognised at fair value. Transaction costs are expensed in the statement of comprehensive income and gains or losses arising from changes in fair value are also presented in the statement of comprehensive income within other gains and losses in the period in which they arise. Financial assets and liabilities at fair value through profit or loss are classified as current except for the portion expected to be realised or paid beyond twelve months of the balance sheet date, which is classified as non-current.
- Loans and receivables comprise of other receivables and cash and cash equivalents and are financial assets with fixed or determinable payments that are not quoted on an active market and are generally included within current assets due to their short-term nature. If collection of the amounts is expected in one year or less they are classified as current assets. If not, they are presented as non-current assets. Loans and receivables are initially recognised at fair value and are subsequently measured at amortised cost using the effective interest method less any provision for impairment.
- Financial liabilities at amortised cost comprise of trade and other payables and are initially recognised at the fair value of the amount expected to be paid and are subsequently measured at amortised cost using the effective interest rate method. Financial liabilities are classified as current liabilities unless the Company has an unconditional right to defer settlement for at least 12 months after the balance sheet date.

***Impairment of financial assets***

At each reporting date the Company assesses whether there is objective evidence indicating that a financial asset is impaired including:

- Significant financial difficulty of the issuer
- A breach of contract such as delinquency in interest or principal payments
- Active market for that financial asset disappears because of financial difficulties
- Observable data indicating that there is a measureable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets

If evidence of impairment exists the Company recognises an impairment loss in the statement of comprehensive income as follows:

- Financial assets carried at amortised cost – the impairment loss is the difference between the carrying amount of the loan or receivable and the present value of the estimated future cash flows discounted using the instrument's effective interest rate.

Impairment losses on financial assets carried at amortised cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised.

**(j) Cash and cash equivalents**

Cash and cash equivalents are comprised of cash on hand and demand deposits and other short-term liquid investments that are readily convertible to a known amount of cash within three months or less from the acquisition date.

**(k) Borrowings**

Borrowings are recognised initially at fair value, net of any transaction costs incurred. Borrowings are subsequently carried at amortised cost using the effective interest rate method.



**SHAMARAN PETROLEUM CORP.**  
**Notes to the Consolidated Financial Statements**  
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General and specific borrowing costs directly attributable to the acquisition or construction of qualifying assets are capitalised together with the qualifying assets. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

**(l) Taxation**

The income tax expense comprises current income tax and deferred income tax.

The current income tax is the expected tax payable on the taxable income for the period. It is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date and includes any adjustment to tax payable in respect of previous years.

Deferred income tax is the tax recognised in respect of temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases and is accounted for using the balance sheet liability method. Deferred income tax liabilities are generally recognised for all taxable temporary differences and deferred income tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred income tax is not recorded if it arises from the initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither the accounting profit nor loss.

Deferred income tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates and interests in joint ventures except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred income tax is calculated at the tax rates that are expected to apply in the year when the deferred tax liability is settled or the asset is realised. Deferred tax is charged or credited in the statement of comprehensive income except when it relates to items charged or credited directly to equity in which case the deferred tax is also recognised directly in equity. Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

**(m) Provisions**

Provisions are recognised when the Company has a present obligation, legal or constructive, as a result of a past event when it is probable that the Company will be required to settle the obligation and a reliable estimate can be made of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flow estimates to settle the present obligation its carrying amount is the present value of those cash flows.

***Decommissioning and site restoration***

Provisions for decommissioning and site restoration are recognised when the Company has a present legal or constructive obligation to dismantle and remove production, storage and transportation facilities and to carry out site restoration work. The provision is calculated as the net present value of the Company's share of the expenditure expected to be incurred at the end of the producing life of each field using a discount rate that reflects the market assessment of the time value of money at that date. Unwinding of the discount on the provision is charged to the statement of comprehensive income within finance costs during the period. The amount recognised as the provision is included as part of the cost of the relevant asset and is charged to the statement of comprehensive income in accordance with the Company's policy for depreciation and amortisation.

**SHAMARAN PETROLEUM CORP.**  
**Notes to the Consolidated Financial Statements**  
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Changes in the estimated timing of decommissioning and site restoration cost estimates are dealt with prospectively by recording an adjustment to the provision and a corresponding adjustment to the relevant asset.

**(n) Pension obligations**

The Company's Swiss subsidiary, ShaMaran Services SA, has a defined benefit pension plan that is managed through a private pension plan. Independent actuaries determine the cost of the defined benefit plan on an annual basis, and ShaMaran Services SA pays the annual insurance premium. The pension plan provides benefits coverage to the employees of ShaMaran Services SA in the event of retirement, death or disability. ShaMaran Services SA and its employees jointly finance retirement and risk benefits. Employees of ShaMaran Services SA pay 40% of the savings contributions, of the risk contributions and of the cost contributions and ShaMaran Services SA contributes the difference between the total of all required pension plan contributions and the total of all employees' contributions.

**(o) Share capital**

Common shares are classified as equity. Incremental costs directly attributable to the issue of new shares or share options are shown in equity as a deduction, net of tax, from the proceeds.

**(p) Share-based payments**

The Company issues equity-settled share-based payments to certain directors, employees and third parties. The fair value of the equity settled share-based payments is measured at the date of grant. The total expense is recognised over vesting period, which is the period over which all conditions to entitlement are to be satisfied. The cumulative expense recognised for equity-settled share-based payments at each balance sheet date represents the Company's best estimate of the number of equity instruments that will ultimately vest. The charge or credit for the period and the corresponding adjustment to contributed surplus during the period represents the movement in the cumulative expense recognised for all equity instruments expected to vest. The fair value of equity-settled share-based payments is determined using the Black-Scholes option pricing model.

**(q) Income recognition**

*Interest income:*

Interest income is recognised when it is probable that the economic benefits associated with the transaction will flow to the entity and the amount of the income can be measured reliably. Interest income is recognised using the effective interest method. The effective interest rate exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

**(r) Changes in accounting policies**

There are no IFRS or interpretations that have been issued effective for financial years beginning on or after January 1, 2016 that would have a material impact on the Company's consolidated financial statements.

**SHAMARAN PETROLEUM CORP.**  
**Notes to the Consolidated Financial Statements**  
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*(Expressed in thousands of United States dollars unless otherwise stated)*

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**(s) Accounting standards issued but not yet applied**

Standards and interpretations issued but not yet effective up to the date of issuance of the financial statements are listed below.

*IFRS 9: Financial Instruments - Classification and Measurement*, addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and amended in October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than in net earnings, unless this creates an accounting mismatch. The new standard will be effective for annual periods beginning on or after January 1, 2018. The Company is in the process of assessing the full impact of IFRS 9 and intends to adopt IFRS 9 no later than the accounting period beginning on or after January 1, 2018.

*IFRS 15: Revenue from contracts with customers* is the new standard which replaces IAS 18 Revenue and IAS 11 Construction Contracts and provides a five step framework for application to customer contracts; identification of customer contract, identification of the contract performance obligations, determination of the contract price, allocation of the contract price to the contract performance obligations, and revenue recognition as performance obligations are satisfied. A new requirement where revenue is variable stipulates that revenue may only be recognised to the extent that it is highly probable that significant reversal of revenue will not occur. The new standard will be effective for annual periods beginning on or after January 1, 2018. The Company is in the process of assessing the full impact of IFRS 15 and intends to adopt IFRS 15 no later than the accounting period beginning on or after January 1, 2018.

*IFRS 16: Leases* will replace *IAS 17 Leases* and requires assets and liabilities arising from all leases, with some exceptions, to be recognized on the balance sheet. The new standard will be effective for annual periods beginning on or after January 1, 2019. The Company is in the process of assessing the full impact of IFRS 16 and intends to adopt IFRS 16 no later than the accounting period beginning on or after January 1, 2019.

**4. Critical accounting judgments and key sources of estimation uncertainty**

In the application of the Company's accounting policies, which are described in Note 3, management has made judgments, estimates and assumptions about the carrying amounts of the assets, liabilities, revenues, expenses and related disclosures. These estimates and associated assumptions are based on historical experience, current trends and other factors that management believes to be relevant at the time these consolidated financial statements were prepared. Actual results may differ as future events and their effects cannot be determined with certainty and such differences could be material. Management reviews the accounting policies, underlying assumptions, estimates and judgments on an on-going basis to ensure that the financial statements are presented fairly in accordance with IFRS.

**SHAMARAN PETROLEUM CORP.**  
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**For the year ended December 31, 2016**  
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The following are the critical judgments and estimates that management has made in the process of applying the Company's accounting policies in these consolidated financial statements:

**(a) Oil and gas reserves and resources**

The business of the Company is the exploration and development of oil and gas reserves in Kurdistan. Estimates of commercial oil and gas reserves are used in the calculations for impairment, depreciation and amortisation and decommissioning provisions. Changes in estimates of oil and gas reserves resulting in different future production profiles will affect the discounted cash flows used for impairment purposes, the anticipated date of site decommissioning and restoration and the depreciation charges based on the unit of production method.

In February 2017 the Company received an independent reserves and resources report from McDaniel & Associates Consultants Ltd. ("McDaniel") to estimate the Company's Atrush Block reserves and resources at December 31, 2016. The reserves and resources estimates were unchanged from the estimates provided by McDaniel for the previous year end.

**(b) Loans and receivables**

The Company has reported loans and receivables of \$53.4 million relating to the KRG's share of Atrush exploration, development and Feeder Pipeline costs which are due to be repaid by the KRG to the Company over time following the commencement of petroleum exports from Atrush production. The recovery of the balances depends on some or all of a number of factors, including: the conclusion of the Feeder Pipeline and the commencement of production and exports of petroleum from the Atrush Block; oil price; and, the financial environment in Kurdistan and the financial budget of the KRG. Since February 1, 2016, when the KRG announced an interim measure whereby monthly payments to IOCs would be made based on an agreed mechanism, the KRG has established a relatively consistent record of delivering regular monthly payments to IOCs for their entitlement revenues in respect of monthly petroleum production. The Company believes the loans and receivable balances are fully recoverable, and expect that the amounts will be settled with cash, although it is possible that settlement could be achieved in a number of ways including payment in kind of petroleum production.

The current portion of loans and receivables is based on contractual repayment starting in the month following production exports which is expected in the second quarter of 2017. In case of delays in production exports the current portion of loans and receivables will be less than the reported amounts. Refer also to Note 14.

**(c) Impairment of assets**

*IAS 36 Impairment of Assets* and *IFRS 6 Exploration of and Evaluation of Mineral Resources* require that a review for impairment be carried out if events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. As described in Notes 3(i) and 3(j) management has considered whether there is any objective evidence to indicate that the carrying value of any of its Atrush related assets as at the balance sheet date were impaired and has concluded that facts and circumstances do not suggest that the carrying amount exceeds its recoverable amount. In reaching its conclusion management has considered a number of factors which could impact the ability of the assets to generate future cash flows including the following key items: that the fair values of the Atrush asset as published by independent market brokers Swedbank and Pareto Securities AB support the carrying values of the Atrush oil and gas assets; that there has been no change in the Company's share of the latest estimated recoverable reserves and resources for Atrush and the related production curve estimates as determined by McDaniel; that the net present value of the Company's share of 2P reserves, as determined by McDaniel and based on a forecasted Brent oil price, supports the book value of oil and gas assets included in property plant and equipment despite a decrease in the long term price forecast relative to the prior year forecast; that there has been a decrease in the forecasted level of costs and associated cash outflows required to recover the Atrush oil reserves; the collectability of cash for future sales of Atrush oil which has remained stable over the past year; and, that there continues to be an active market and capacity for Atrush oil sales as demonstrated by the current and future expected levels of oil exports from Kurdistan. Refer also to Notes 12, 13 and 14.

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**(d) Decommissioning and site restoration provisions**

The Company recognises a provision for decommissioning and site restoration costs expected to be incurred in order to remove and dismantle production, storage and transportation facilities and to carry out site restoration work. The provisions are estimated taking into consideration existing technology and current prices after adjusting for expected inflation and discounted using rates reflecting current market assessments of the time value of money and where appropriate, the risks specific to the liability. The Company makes an estimate based on its experience and historical data. Refer also to Note 17.

**(e) Share-based payments**

The Company issues equity-settled share-based payments to certain directors, employees and third parties. In accordance with *IFRS 2 Share-based payments*, in determining the fair value of options granted, the Company has applied the Black-Scholes model and as a result makes assumptions for the expected volatility, expected life, risk-free rate, behavioural considerations and expected dividend yield. Refer to Note 20 for further information on share based payments.

**5. Business and geographical segments**

The Company operates in one business segment, the exploration and development of oil and gas assets, in one geographical segment, Kurdistan. As a result, in accordance with *IFRS 8 Operating Segments*, the Company has presented its financial information collectively for one operating segment. Refer to Note 11 for disclosure of the Company's discontinued operations.

**6. Service fees**

During the year ended December 31, 2016 the Company has provided technical services to a third party petroleum company.

**7. General and administrative expense**

	<b>For the year ended December 31,</b>	
	<b>2016</b>	<b>2015</b>
General and administrative expenses incurred	3,811	5,194
General and administrative expenses capitalised as E&E assets	-	(2,835)
<b>General and administrative expense</b>	<b>3,811</b>	<b>2,359</b>

The Company capitalises as E&E assets general and administrative expenses supporting E&E activities which relate to its direct interest held in the Atrush Block. There were no general and administrative expenses capitalised in the year 2016 because E&E activities during the year were insignificant. Refer also to Note 13.

**8. Finance income**

	<b>For the year ended December 31,</b>	
	<b>2016</b>	<b>2015</b>
Interest on Atrush Development Cost Loan	406	-
Interest on deposits	44	189
Interest on Atrush Feeder Pipeline Cost Loan	34	-
Total interest income	484	189
Foreign exchange gain	-	492
<b>Total finance income</b>	<b>484</b>	<b>681</b>

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Refer to Note 14 for further information on interest on the Atrush Development Cost Loan and the Feeder Pipeline Cost Loan. Interest on deposits represents bank interest earned on cash and investments held in interest bearing term deposits.

The foreign exchange gain in the year 2015 resulted primarily from holding net assets denominated in Canadian dollars while the CAD strengthened against the United States dollar, the reporting currency of the Company.

**9. Finance cost**

	<b>For the year ended December 31,</b>	
	<b>2016</b>	<b>2015</b>
Interest charges on bonds at coupon rate	17,951	17,250
Amortisation of bond transaction costs	943	606
Interest expense on borrowings	18,894	17,856
Unwinding discount on decommissioning provision	68	36
Total finance costs before borrowing costs capitalised	18,962	17,892
Borrowing costs capitalised as E&E and PP&E assets	(13,376)	(12,571)
<b>Total finance costs</b>	<b>5,586</b>	<b>5,321</b>

During the year ended December 31, 2016 the Company incurred interest expense relating to its Senior Bonds and Super Senior Bonds which both carry an 11.5% fixed semi-annual coupon interest rate.

Refer also to Notes 12, 13 and 16.

**10. Taxation**

**(a) Income tax expense**

The income tax expense reflects an effective tax rate which differs from Federal and Provincial statutory tax rates. The main differences are as follows:

	<b>For the year ended December 31,</b>	
	<b>2016</b>	<b>2015</b>
Loss from continuing operations before income tax	9,087	252,822
Corporate income tax rate	26.0%	26.0%
Computed income tax recovery	2,363	65,734
Increase / (decrease) resulting from:		
Non-deductible losses on foreign operations	(1,626)	(37,349)
Foreign tax rate differences	(494)	(15,099)
Other expense	(399)	346
Non-deductible compensation expense	(65)	(314)
Non-taxable foreign exchange gain	-	128
Share issuance costs charged to share capital	-	342
Change in valuation allowance	40	(12,915)
Effect of changes in foreign exchange rates	112	(967)
<b>Income tax expense from continuing operations</b>	<b>(69)</b>	<b>(94)</b>

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.

The Company has not recognised approximately \$103 million (2015: \$103 million) of deferred tax assets as it is not probable that these amounts will be realised.

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**(b) Tax losses carried forward**

The Company has tax losses and costs which are available to apply to future taxable income as follows:

	As at December 31,	
	2016	2015
Canadian losses from operations	18,544	18,413
Canadian exploration expenses	2,419	2,369
Canadian unamortised share issue costs	758	1,097
Dutch losses from operations	178,631	178,627
U.S. Federal losses from operations	173,314	173,344
U.S. Federal tax basis in excess of carrying values of properties	3,654	3,654
<b>Total tax losses carried forward</b>	<b>377,320</b>	<b>377,504</b>

The Canadian losses from operations may be used to offset future Canadian taxable income and will expire over the period from 2026 to 2036. The Canadian exploration expenses may be carried forward indefinitely to offset future taxable Canadian income. Canadian unamortised share issue costs may offset future taxable Canadian income of years 2017 to 2019. The Dutch losses from operations may be used to offset future Dutch taxable income and will expire over the period from 2018 to 2025. The U.S. Federal losses are available to offset future taxable income in the United States through 2032.

**11. Discontinued operations**

During May of 2009 the Company sold to a third party its oil and gas properties located in the United States in the Gulf of Mexico. The results of the discontinued operations included in the consolidated statement of comprehensive income are as follows:

	For the year ended December 31,	
	2016	2015
Gain on release of excess accrued windup costs	-	46
General, administrative and professional expense	-	(13)
<b>Net gain from discontinued operations</b>	<b>-</b>	<b>33</b>

During the year 2015 the Company completed the windup of Summit Energy Company LLC, which was the lone remaining United States based operational subsidiary of the Company. The total cost to complete this exercise was less than the amount previously estimated and the excess accrued windup costs have been released resulting in a gain in the year 2015.

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**12. Property, plant and equipment**

	Oil and gas assets	Computer equipment	Furniture and office equipment	Total
<b>At January 1, 2015</b>				
Cost	194	256	154	604
Accumulated depreciation	(105)	(188)	(139)	(432)
<b>Net book value</b>	<b>89</b>	<b>68</b>	<b>15</b>	<b>172</b>
<b>For the year ended December 31, 2015</b>				
Opening net book value	89	68	15	172
Additions	11,029	4	-	11,033
Transfer from intangible E&E	410,472	-	-	410,472
Impairment loss	(244,557)	-	-	(244,557)
Exchange difference	-	1	-	1
Depreciation expense	(33)	(29)	(15)	(77)
<b>Net book value</b>	<b>177,000</b>	<b>44</b>	<b>-</b>	<b>177,044</b>
<b>At December 31, 2015</b>				
Cost	177,138	258	153	177,549
Accumulated depreciation	(138)	(214)	(153)	(505)
<b>Net book value</b>	<b>177,000</b>	<b>44</b>	<b>-</b>	<b>177,044</b>
<b>For the year ended December 31, 2016</b>				
Opening net book value	177,000	44	-	177,044
Additions	45,799	1	-	45,800
Transfer to Atrush Development Cost Loan	(10,682)	-	-	(10,682)
Transfer to Atrush Exploration Costs receivable	(37,475)	-	-	(37,475)
Depreciation expense	-	(29)	-	(29)
<b>Net book value</b>	<b>174,642</b>	<b>16</b>	<b>-</b>	<b>174,658</b>
<b>At December 31, 2016</b>				
Cost	174,780	253	150	175,183
Accumulated depreciation	(138)	(237)	(150)	(525)
<b>Net book value</b>	<b>174,642</b>	<b>16</b>	<b>-</b>	<b>174,658</b>

The net book value of oil and gas assets at December 31, 2016 are comprised of development costs related to the Company's share of Atrush PSC proved and probable reserves as estimated by McDaniel ("the Atrush 2P reserves"). These costs are not subject to depletion until commencement of commercial production. The additions to PP&E in the year 2016 included borrowing costs totalling \$13.1 million (2015: \$1 million).

On November 7, 2016 the Assignment, Novation and Fourth Amendment Agreement to the Atrush PSC (the "4<sup>th</sup> PSC Amendment") and Atrush Facilitation Agreement were concluded between TAQA Atrush B.V. ("TAQA", a subsidiary of Abu Dhabi National Energy Company PJSC and the Operator of the Atrush Block), General Exploration Partners, Inc., ("GEP" and a wholly owned subsidiary of the Company), and Marathon Oil KDV B.V. ("MOKDV") (together, the "Non-Government Contractors") and the KRG which has resulted in the reclassification of certain costs from PP&E to loans and receivables. Refer to Note 14 for further information.

In the year 2015, as a result of significant decline in world oil prices, the Company determined that the book value of the Atrush 2P reserves exceeded their \$177 million recoverable value, determined by the Company's estimate of the value in use, by an amount of \$244.6 million and therefore recorded an impairment loss for this amount. Also in the year 2015, \$410.5 million of costs related to the Atrush 2P reserves were transferred from intangible assets to PP&E in 2015 following the approval of an agreement for the construction of a crude oil pipeline within the Atrush Block.

Refer also to Notes 9, 13, 14, 16 and 23.



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**13. Intangible assets**

	Exploration and evaluation assets	Other intangible assets	Total
<b>At January 1, 2015</b>			
Cost	429,245	292	429,537
Accumulated amortisation	-	(260)	(260)
<b>Net book value</b>	<b>429,245</b>	<b>32</b>	<b>429,277</b>
<b>For the year ended December 31, 2015</b>			
Opening net book value	429,245	32	429,277
Additions	69,821	31	69,852
Transfer to PP&E	(410,472)	-	(410,472)
Amortisation expense	-	(12)	(12)
<b>Net book value</b>	<b>88,594</b>	<b>51</b>	<b>88,645</b>
<b>At December 31, 2015</b>			
Cost	88,594	321	88,915
Accumulated amortisation	-	(270)	(270)
<b>Net book value</b>	<b>88,594</b>	<b>51</b>	<b>88,645</b>
<b>For the year ended December 31, 2016</b>			
Opening net book value	88,594	51	88,645
Additions	378	-	378
Amortisation expense	-	(16)	(16)
<b>Net book value</b>	<b>88,972</b>	<b>35</b>	<b>89,007</b>
<b>At December 31, 2016</b>			
Cost	88,972	314	89,286
Accumulated amortisation	-	(279)	(279)
<b>Net book value</b>	<b>88,972</b>	<b>35</b>	<b>89,007</b>

The net book value of E&E assets at December 31, 2016 represents Atrush Block exploration and appraisal costs related to the Company's share of Atrush Block contingent resources as estimated by McDaniel. During the year 2016 borrowing costs of \$0.3 million (2015: \$11.5 million) were capitalised to E&E assets.

In the year 2015 \$410.5 million of costs related to the Atrush 2P reserves have been transferred from intangible assets to PP&E. Refer also to Notes 9, 12, 16, and 23.

**14. Loans and receivables**

On November 7, 2016 the 4<sup>th</sup> PSC Amendment and Atrush Facilitation Agreement were concluded between the Non-Government Contractors and the KRG. On the same day TAQA entered into an Engineering, Procurement and Construction ("EPC") contract with KAR Company for the construction of the feeder pipeline from the Atrush block boundary to the tie-in point with the main Kurdistan export pipeline (the "Feeder Pipeline").

Under the terms of the 4<sup>th</sup> PSC Amendment and Atrush Facilitation Agreement:

- The KRG acquires a 25% interest in the Atrush PSC effective November 7, 2012, the date of declaration of commerciality ("DOC date"). As a consequence the respective participating interests in the Atrush PSC are TAQA at 39.9%, the KRG at 25%, GEP at 20.1% and MOKDV at 15%;

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- All Atrush petroleum costs from the DOC date through the commencement of oil exports from Atrush will be paid by the Non-Government Contractors and a defined portion of the KRG's share of these costs will be deemed Exploration Costs as defined in the Atrush PSC and repaid through an accelerated petroleum cost recovery arrangement from the sale of future oil production from Atrush. This arrangement has resulted in the Atrush Exploration Cost receivable at year end as reported in the table below; and
- The Non-Government Contractors will fund the cost of constructing the Feeder Pipeline which will be novated to the KRG following the commencement of oil exports from Atrush. The Feeder Pipeline costs and the balance of the Atrush petroleum costs incurred by the Non-Government Contractors on behalf of the KRG excluding the portion deemed as Exploration Costs will be repaid with interest at 7% per annum by the KRG within 2 years from the commencement of oil exports from Atrush (respectively, the "Atrush Feeder Cost Loan" and the "Atrush Development Cost Loan"). These arrangements have resulted in loan balances at year end as reported in the table below.

	As at December 31,	
	2016	2015
Atrush Exploration Costs receivable	37,475	-
Atrush Development Cost Loan	12,857	-
Atrush Feeder Pipeline Cost Loan	3,034	-
<b>Total loans and receivables</b>	<b>53,366</b>	<b>-</b>
- Current portion	7,252	-
- Non-current portion	46,114	-

Refer also to Notes 8, 12 and 23.

**15. Accounts payable and accrued expenses**

	As at December 31,	
	2016	2015
Payables to joint operations partner	6,146	8,970
Trade payables	170	317
Accrued expenses	118	273
<b>Total accounts payable and accrued expenses</b>	<b>6,434</b>	<b>9,560</b>

**16. Borrowings**

At December 31, 2016 General Exploration Partners, Inc. had outstanding \$148.7 million of senior secured bonds ("Senior Bonds") and \$18.1 million of super senior secured bonds ("Super Senior Bonds"). The Senior Bonds are listed on the Oslo Børs in Norway under the symbol "GEP01", have a five year maturity from their issuance date of November 13, 2013 and carry an 11.5% fixed semi-annual coupon and were used to fund capital expenditures related to the development of the Atrush Block. The Super Senior Bonds also mature on November 13, 2018, carry an 11.5% fixed semi-annual coupon and were used to fund capital expenditures related to the development of the Atrush Block.

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Movements in borrowings are explained as follows:

	<b>For the year ended December 31,</b>	
	<b>2016</b>	<b>2015</b>
<b>Opening balance</b>	<b>150,515</b>	<b>149,909</b>
Interest charges at coupon rate	17,951	17,250
Bonds issued as interest payments	17,700	-
Super Senior Bonds issued – net of transaction costs	16,223	-
Amortisation of bond transaction costs	943	606
Interest payments to bondholders	(17,700)	(17,250)
Senior Bonds exchanged for ShaMaran common shares	(18,000)	-
<b>Ending balance</b>	<b>167,632</b>	<b>150,515</b>
- Current portion: accrued bond interest expense	2,503	2,252
- Non-current portion: borrowings	165,129	148,263

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

	<b>As at December 31,</b>	
	<b>2016</b>	<b>2015</b>
Less than one year	19,722	17,250
Between one and two years	188,138	182,763
<b>Total</b>	<b>207,860</b>	<b>200,013</b>

**Financing Arrangement – May 2016**

In early May 2016 the Company completed a financing arrangement (the “Financing Arrangement”) with holders of GEP’s Senior Bonds (the “Existing Bondholders”) which provided the Company with additional liquidity in 2016 of approximately \$33 million. The principal terms of the Financing Arrangement are:

1. On May 3, 2016 GEP issued new \$17 million Super Senior Bonds resulting in \$16.2 million in proceeds net of transaction costs. The Super Senior Bonds are based on the same agreement as the Senior Bonds with the same maturity date of November 13, 2018 and an 11.5% coupon interest payable semi-annually. GEP has the option to pay the coupon interest on the Super Senior Bonds in cash or in kind by issuing new bonds (“PIK Bonds”). ShaMaran’s major shareholders, Lorito Holdings SARL and Zebra Holdings and Investments SARL, companies owned by the Lundin Family Trust, subscribed for \$15.3 million of the Super Senior Bonds in accordance with the terms of their agreement with GEP to underwrite the Super Senior Bonds.
2. On May 12, 2016 ShaMaran completed the issue of a total of 218,863,000 of its common shares to Existing Bondholders who elected to convert to shares a total of \$18 million of Senior Bonds at face value. The shares were issued at CAD 0.105 which was closing share price on the TSX Venture exchange on the day prior to when the Existing Bondholders approved the offer on April 19, 2016.
3. The bond agreement for the Senior Bonds was amended so that (a) the 2016 coupon interest (\$17.3 million before considering the conversion in 2 above) was settled by issuing new PIK Bonds; (b) GEP has the option to pay in cash or in kind (by issuing new PIK Bonds) the post 2016 coupon interest; and (c) certain waivers and amendments were made to the terms of the Senior Bonds including the subordination of Senior Bonds’ security to the Super Senior Bonds’ security and the replacement of the book equity ratio maintenance covenant with certain debt incurrence tests described below.

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**Debt Incurrence Tests**

In accordance with the amended terms of GEP's Senior Bonds and Super Senior Bonds agreements ShaMaran is required to be in compliance with certain debt incurrence tests as follows:

1. upon incurrence of any new financial indebtedness, other than certain permitted financial indebtedness as described in the Super Senior Bonds agreement, then ShaMaran's Book Equity Ratio, which is defined as shareholders' equity divided by total assets, shall be minimum 30% immediately thereafter, and
2. ShaMaran and any of its subsidiaries (together the "Group") other than GEP, which is not allowed to do so, may not enter into an agreement to make any acquisitions, merger or any other transactions involving another party being consolidated into the Group's accounts, unless such other party has a minimum 30% Book Equity Ratio prior to such transaction taking place.

**Security**

Following the amendment to the Senior Bonds agreement the security previously held for the Senior Bonds is joint security with the new Super Senior Bonds on first rank and the Senior Bonds on second rank until the Super Senior Bonds are repaid in full.

The bonds include an unconditional and irrevocable on-demand guarantee on a joint and several basis from the Company and certain of the Company's direct and indirect subsidiaries and, among other arrangements, agreements which pledge all of the ordinary shares of GEP and the Company's Swiss service subsidiary, ShaMaran Services SA, as security for GEP's bond related obligations, as well as an internal credit facility agreement among the Company and certain of its subsidiaries setting out the terms and conditions for intra-group credit to be made available amongst the parties.

Under the terms of both bond agreements all bond proceeds are held in accounts pledged to the bond trustee as security and may be accessed by the Company on prior authorisation of the bond trustee provided the proceeds are to be employed for prescribed purposes, most notably to fund the financing, development and operation of the Atrush Block and to fund technical, management and administrative services of ShaMaran's subsidiary companies up to \$6 million per year over the term of the bonds. Of the Company's \$4.4 million of total cash and cash equivalents at December 31, 2016 (2015: \$31.9 million) \$nil was held in accounts pledged to the bond trustee (December 31, 2015: \$1.5 million).

During the year 2016 PIK Bonds of \$16.7 million and \$1.0 million were issued as coupon interest payments under the respective Senior Bonds and Super Senior Bonds agreements.

Refer also to Notes 2, 9, 12, 13 and 21.

**17. Provisions**

The Company has provided for its working interest share of decommissioning and site restoration costs in relation to activities undertaken to date on the Atrush Block in Kurdistan.

	<b>As at December 31,</b>	
	<b>2016</b>	<b>2015</b>
Opening balance	8,080	1,846
Changes in discount and inflation rates	1,840	100
Unwinding discount on decommissioning provision	68	36
Changes in estimates and obligations incurred	(1,119)	6,098
<b>Total decommissioning and site restoration provisions</b>	<b>8,869</b>	<b>8,080</b>

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The above provisions assume decommissioning and site restoration work is to be undertaken in the year 2032 and estimated costs have been discounted to net present value using a Bank of Canada long term bond yield rate of 2.31% (2015: 2.15%) and an inflation rate of 2.08% (2015: 0.73%). While total estimated decommissioning and site restoration costs on the Atrush Block have increased over the prior year due to the development cost incurred in the year, the reduction from 26.8% to 20.1% in the Company's participating interest in the Atrush Block has resulted in a net decrease to estimates and obligations incurred in 2016. Refer also to Note 23.

**18. Pension liability**

The Company operates a pension plan in Switzerland that is managed through a private pension plan. As of January 1, 2016 the Company adopted accounting for its pension plan in accordance with IAS 19 which has resulted in a \$1.7 million adjustment to opening retained earnings to record the pension liability on that date. The amount recognized in the balance sheet associated with the Swiss pension plan is as follows:

	<b>As at December 31, 2016</b>
Present value of defined benefit obligation	7,304
Fair value of plan assets	(5,634)
<b>Pension liability</b>	<b>1,670</b>

The movement in the defined benefit obligation over the year is as follows:

	<b>For the year ended December 31, 2016</b>
Opening balance	7,062
Current service cost	184
Additional contributions paid by employees	183
Ordinary contributions paid by employees	113
Interest expense on defined benefit obligation	54
Actuarial loss on defined benefit obligation	23
Administration costs	5
Benefits paid from plan assets	(158)
Foreign exchange gain	(162)
<b>Defined benefit obligation, ending balance</b>	<b>7,304</b>

The weighted average duration of the defined benefit obligation is 17.5 years. There is no maturity profile since the average remaining life before active employees reach final age according to the plan is 10.2 years.

The movement in the fair value of the plan assets over the year is as follows:

	<b>For the year ended December 31, 2016</b>
Opening balance	5,374
Additional contributions paid by employees	183
Ordinary contributions paid by employer	169
Ordinary contributions paid by employees	113
Interest income on plan assets	41
Return on plan assets excluding interest income	38
Foreign exchange loss	(126)
Benefits paid from plan assets	(158)
<b>Fair value of plan assets, ending balance</b>	<b>5,634</b>

The plan assets are under an insurance contract comprised entirely of free funds and reserves, such as fluctuation reserves and employer contribution reserves, for which there is no quoted price in an active market.

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The amount recognized in the income statement associated with the Company's pension plan is as follows:

	<b>For the year ended December 31, 2016</b>
Current service cost	184
Interest expense on defined benefit obligation	54
Administration costs	5
Interest income on plan assets	(41)
<b>Total expense recognised</b>	<b>202</b>

The expense associated with the Company's pension plan of \$0.2 million was included within general and administrative expenses. Refer also to Note 7. The Company also recognised in other comprehensive income a \$15 thousand net actuarial gain on defined benefit obligations and pension plan assets.

The principal actuarial assumptions used to estimate the Company's pension obligation are as follows:

	<b>For the year ended December 31, 2016</b>
Discount rate	0.65%
Inflation rate	1.00%
Future salary increases	1.00%
Future pension increases	0.00%
Retirement ages, male ('M') and female ('F')	M65/F64

Assumptions regarding future mortality are set based on actuarial advice in accordance with the BVG 2015 GT generational published statistics and experience in Switzerland. The discount rate is determined by reference to the yield on high-quality corporate bonds. The rate of inflation is based on the expected value of future annual inflation adjustments in Switzerland. The rate for future salary increases is based on the average increase in the salaries paid by the Company, and the rate of pension increases is based on the annual increase in risk, retirement and survivors' benefits. Contributions to the Company's pension plan during 2017 are expected to total \$0.3 million.

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is:

	<b>Change in assumption</b>	<b>Increase in assumption</b>	<b>Decrease in assumption</b>
Discount rate	0.50%	Decrease by 8.1%	Increase by 9.3%
Salary growth rate	0.50%	Increase by 0.3%	Decrease by 0.3%
Life expectancy	One year	Increase by 2.0%	Decrease by 2.1%

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions, the same method has been applied as when calculating the pension liability recognized within the consolidated balance sheet.

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**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
<b>At January 1, 2015</b>	<b>810,983,860</b>	<b>534,068</b>
Shares issued on Rights Offering, net of issuance costs	754,214,990	59,111
Shares issued to Standby Purchasers as equity based guarantee fee	14,569,684	1,346
Guarantee fee charged directly to share capital	-	(1,346)
<b>At December 31, 2015</b>	<b>1,579,768,534</b>	<b>593,179</b>
Shares issued to holders of GEP's Senior Bonds	218,863,000	18,000
<b>At December 31, 2016</b>	<b>1,798,631,534</b>	<b>611,179</b>

218,863,000 ShaMaran common shares were issued to holders of GEP's Senior Bonds in early May 2016 in exchange for settling \$18 million of GEP's Senior Bonds. At the date these financial statements were approved the Company had 2,158,631,534 common shares outstanding.

Refer also to Notes 16 and 25.

**Earnings per share**

The earnings per share amounts were as follows:

	For the year ended December 31,	
	2016	2015
<b>Continuing operations:</b>		
Net loss from continuing operations, in dollars	(9,155,000)	(252,916,000)
Weighted average common shares outstanding during the year	1,722,479,202	1,493,132,481
Basic and diluted loss per share from continuing operations, in dollars	(0.01)	(0.17)
<b>Discontinued operations:</b>		
Net income from discontinued operations, in dollars	-	33,000
Weighted average common shares outstanding during the year	1,722,479,202	1,493,132,481
Basic and diluted income per share from discontinued operations, in dollars	-	-
<b>Continuing and discontinued operations:</b>		
Net loss from continuing and discontinued operations, in dollars	(9,155,000)	(252,883,000)
Weighted average common shares outstanding during the year	1,722,479,202	1,493,132,481
Basic and diluted loss per share from continuing and discontinued operations, in dollars	(0.01)	(0.17)

**20. Share based payments expense**

The Company has an established 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 under option at any specific time to any one option holder shall not exceed 5% of the issued and outstanding common shares of the Company. The term of any options granted under the 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.

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

	Number of share options outstanding	Weighted average exercise price CAD
<b>At January 1, 2015</b>	<b>6,755,000</b>	<b>0.38</b>
Granted in the year 2015	26,000,000	0.12
Expired in the year 2015	(4,565,000)	0.39
<b>At December 31, 2015</b>	<b>28,190,000</b>	<b>0.13</b>
Expired in the year 2016	(25,000)	0.80
<b>At December 31, 2016</b>	<b>28,165,000</b>	<b>0.13</b>
<b>Share options exercisable:</b>		
At December 31, 2015	10,856,667	0.17
At December 31, 2016	19,498,333	0.14

The Company recognises compensation expense on share options granted to both employees and non-employees using the fair value method at the date of grant, which the Company records as an expense. The share based payments expense is calculated using the Black-Scholes option pricing model.

There were no options granted during the year 2016. The weighted average fair value of options granted during the year 2015 and the assumptions used in their determination are as follows:

	For the year ended December 31,	
	2016	2015
Expected dividend yield	-	0%
Risk-free interest rate (weighted average)	-	1.07%
Expected share price volatility (weighted average)	-	74.01%
Expected option life in years (weighted average)	-	5.00
Grant date fair value (weighted average)	-	CAD 0.07

Share based payments expense for the year ended December 31, 2016 was \$0.2 million (2015: \$1.2 million).

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate and therefore the existing models do not necessarily provide a reliable single measure of the fair value of the Company's share options.



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**21. Financial instruments**

***Financial assets***

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

	Carrying and fair values <sup>1</sup>	
	At December 31, 2016	At December 31, 2015
Loans and receivables <sup>2</sup>	53,366	-
Cash and cash equivalents, unrestricted <sup>2</sup>	4,416	30,409
Cash and cash equivalents, restricted <sup>2</sup>	-	1,512
Other receivables <sup>2</sup>	77	29
<b>Total financial assets</b>	<b>57,859</b>	<b>31,950</b>

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 <sup>4</sup>	Carrying values	
		At December 31, 2016	At December 31, 2015
Borrowings <sup>3</sup>	Level 2	165,129	148,263
Provisions for decommissioning costs		8,869	8,080
Accounts payable and accrued expenses <sup>2</sup>		6,434	9,560
Accrued interest on bonds		2,503	2,252
Pension liability		1,670	-
Current tax liabilities <sup>2</sup>		-	31
<b>Total financial liabilities</b>		<b>184,605</b>	<b>168,186</b>

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.

<sup>1</sup> The carrying amount of the Company's financial assets approximate their fair values at the balance sheet dates.

<sup>2</sup> 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.

<sup>3</sup> The fair value of the Company's borrowings is \$63.1 million (2015: \$102.2 million). The fair value was determined by reference to the bond agreement terms and the weighted average of available annual published price quotations on the Oslo Børs.

<sup>4</sup> *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.

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***Capital risk management***

The Company manages its capital to ensure that entities within the Company will be able to continue as a going concern, while maximising return to shareholders. The capital structure of the Company consists of cash and cash equivalents and equity, comprising issued share capital, reserves and retained earnings as disclosed in the consolidated statement of changes in equity. The Company had debt relating to borrowings and accrued interest of \$167.6 million as at December 31, 2016 (2015: \$150.5 million). Refer also to Notes 16 and 25.

***Financial risk management objectives***

The Company's management monitors and manages the Company's exposure to financial risks facing the operations. These financial risks include market risk (including commodity price, foreign currency and interest rate risks), credit risk and liquidity risk.

The Company does not presently hedge against these risks as the benefits of entering into such agreements is not considered to be significant enough as to outweigh the significant cost and administrative burden associated with such hedging contracts.

***Commodity price risk***

The prices that the Company receives for its oil and gas production may have a significant impact on the Company's revenues and cash flows provided by operations. World prices for oil and gas are characterised by significant fluctuations that are determined by the global balance of supply and demand and worldwide political developments and in particular the price received for the Company's oil and gas production in Kurdistan is dependent upon the Kurdistan government and its ability to export production outside of Iraq. A decline in the price of ICE Brent Crude oil, a reference in determining the price at which the Company can sell future oil production, could adversely affect the amount of funds available for capital reinvestment purposes as well as the Company's value in use calculations for impairment test purposes. Refer also to Note 12.

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 also 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.

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The carrying amounts of the Company's principal monetary assets and liabilities denominated in foreign currency at the reporting date are as follows:

	Assets		Liabilities	
	December 31, 2016	2015	December 31, 2016	2015
Canadian dollars in thousands ("CAD 000")	58	54	37	46
Swiss francs in thousands ("CHF 000")	185	228	107	192

*Foreign currency sensitivity analysis*

The Company is exposed to movements in CHF and CAD against the USD, the presentational currency of the Company. Sensitivity analyses have been performed to indicate how the profit or loss would have been affected by changes in the exchange rates between the USD and CHF and CAD. The analysis below is based on a strengthening of the CHF and CAD by 1% against the USD in which the Company has assets and liabilities at the end of respective period. A movement of 1% reflects a reasonably possible sensitivity when compared to historical movements over a three to five year timeframe. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjust their translation at the period end for a 1% change in foreign currency rates.

A positive number in the table below indicates an increase in profit where USD weakens 1% against the CHF or CAD on the basis of the CHF and CAD assets and liabilities held by the Company at the balance sheet dates. For a 1% strengthening of the USD against the CHF or CAD there would be an equal and opposite impact on the profit or loss.

	Assets		Liabilities	
	2016	2015	2016	2015
Statement of comprehensive income - CAD	-	-	-	-
Statement of comprehensive income - CHF	2	2	(1)	(2)

*Interest rate risk*

The Company earns interest income at variable rates on its cash and cash equivalents and is therefore exposed to interest rate risk due to a fluctuation in short-term interest rates.

The Company's policy on interest rate management is to maintain a certain amount of funds in the form of cash and cash equivalents for short-term liabilities and to have the remainder held on relatively short-term deposits.

The Group is highly leveraged though financing at the project level, for the continuation of Atrush project, and at the corporate level due to the \$166.7 million of bonds which have been issued since November 2013. However, the Company is not exposed to interest rate risks associated with the bonds as the interest rate is fixed.

*Interest rate sensitivity analysis:*

Based on exposure to the interest rates for cash and cash equivalents at the balance sheet date an increase or decrease of 0.5% in the interest rate would not have a material impact on the Company's profit or loss for the year. An interest rate of 0.5% is used as it represents management's assessment of the reasonably possible changes in interest rates.

*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 and other receivables.

The Company manages credit risk by monitoring counterparty ratings and credit limits and by maintaining excess cash and cash equivalents on account in instruments having a minimum credit rating of R-1 (mid) or better (as measured by Dominion Bond Rate Services) or the equivalent thereof according to a recognised bond rating service.

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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 in order 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. Refer also to Note 25.

The Company manages liquidity risk by maintaining adequate cash reserves and by continuously monitoring forecast and actual cash flows. Annual capital expenditure budgets are prepared, which are regularly monitored and updated as considered necessary. In addition, the Company requires authorisations for expenditure on both operating and non-operating projects to further manage capital expenditures.

The maturity profile of the Company's financial liabilities are indicated by their classification in the consolidated balance sheet as "current" or "non-current" and further information relevant to the Company's liquidity position is disclosed in the Company's going concern assessment in Note 2.

**22. Commitments**

As at December 31, 2016 the outstanding commitments of the Company were as follows:

	For the year ended December 31,				Total
	2017	2018	2019	Thereafter	
Atrush Block development	46,428	152	152	2,276	49,008
Office and other	38	-	-	-	38
<b>Total commitments</b>	<b>46,466</b>	<b>152</b>	<b>152</b>	<b>2,276</b>	<b>49,046</b>

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

Refer also to Notes 2, 16 and 23.

**23. Interests in joint operations and other entities**

***Interests in joint operations - Atrush Block Production Sharing Contract***

ShaMaran holds a 20.1% direct interest in the Atrush PSC through GEP. TAQA Atrush B.V. is the Operator of the Atrush Block with a 39.9% direct interest, the KRG holds a 25% direct interest and MOKDV holds a 15% direct interest. TAQA, the KRG, GEP and MOKDV together are "the Contractors" to the Atrush PSC. Under the terms of the 4<sup>th</sup> PSC Amendment and the Facilitation Agreement, which became effective on November 7, 2016, the Non-Government Contractors have agreed to pay their pro-rata share of the Feeder Pipeline costs and of the KRG's share of Atrush development costs up to the commencement of oil exports from Atrush. Thereafter these costs will be reimbursed to the Non-Government Contractors.

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Under the terms of the Atrush PSC the development period is for 20 years with an automatic right to a five year extension and the possibility to extend for an additional five years. All qualifying petroleum costs incurred by the Contractors shall be recovered from a portion of available petroleum production, defined under the terms of the Atrush PSC. All modifications to the Atrush PSC are subject to the approval of the KRG. The Company is responsible for its pro-rata share of the costs incurred in executing the development work program on the Atrush Block which commenced on October 1, 2013.

Refer also to Notes 14, 22 and 25.

**Information about subsidiaries**

The consolidated financial statements of the Company include:

Subsidiary	Principal activities	Country of Incorporation	% equity interest as at	
			31 Dec 2016	31 Dec 2015
ShaMaran Petroleum Holdings Coöperatief U.A.	Oil exploration and production	The Netherlands	100	100
ShaMaran Ventures B.V.	Oil exploration and production	The Netherlands	100	100
General Exploration Partners, Inc.	Oil exploration and production	Cayman Islands	100	100
ShaMaran Petroleum B.V.	Oil exploration and production	The Netherlands	100	100
ShaMaran Services S.A.	Technical and admin. services	Switzerland	100	100
Bayou Bend Petroleum U.S.A. Ltd	Inactive	United States of America	100	100

**24. Related party transactions**

**Transactions with corporate entities**

	Purchases of services during the year		Amounts owing at December 31,	
	2016	2015	2016	2015
Lundin Petroleum AB	299	473	24	40
Namdo Management Services Ltd.	99	173	1	9
McCullough O'Connor Irwin LLP	44	18	-	2
<b>Total</b>	<b>442</b>	<b>664</b>	<b>25</b>	<b>51</b>

The Company receives services from various subsidiary companies of Lundin Petroleum AB ("Lundin"), a shareholder of the Company. Lundin charges during the year ended December 31, 2016 of \$299 (2015: \$473) were comprised of technical service costs of \$3 (2015: \$59), reimbursement for Company travel and related expenses of \$nil (2015: \$23), investor relations services of \$28 (2015: \$29), office rental, administrative and building services of \$268 (2015: \$362).

Namdo Management Services Ltd. is a private corporation affiliated with a shareholder of the Company and has provided corporate administrative support and investor relations services to the Company.

McCullough O'Connor Irwin LLP is a law firm in which an officer of the Company is a partner and has provided legal services to the Company.

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

Refer also to Notes 16 and 25.

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**Key management compensation**

The Company's key management was comprised of its directors and executive officers who have been remunerated as follows:

	<b>For the year ended December 31,</b>	
	<b>2016</b>	<b>2015</b>
Management's salaries	878	884
Management's short-term and pension benefits	492	340
Management's share based payments	192	906
Management's termination benefits	-	495
Directors' share based payments	58	279
Directors' fees	79	83
<b>Total</b>	<b>1,699</b>	<b>2,987</b>

Short-term employee benefits include non-equity incentive plan compensation and other short-term benefits. Share-based payments compensation represents the portion of the Company's share based payments expense incurred during the year attributable to the key management, accounted for in accordance with IFRS 2 'Share Based Payments'.

**25. Events after the reporting period**

On January 30, 2017 the Company completed the issue of 360 million common shares of ShaMaran on a private placement basis (the "Private Placement") at a price per share of CAD 0.10 (equal to SEK 0.67) which resulted in gross proceeds to the Company of \$27.3 million (\$26.4 million net of transaction related costs). Zebra Holdings and Investments SARL, Lorito Holdings SARL and Lundin Petroleum BV, the Company's major shareholders, subscribed for 43,463,618 shares, 16,984,621 shares and 17,800,000 shares, respectively, in the Private Placement.

**SHAMARAN PETROLEUM CORP.**

<b>DIRECTORS</b>
<p><b>Keith C. Hill</b> Director, Chairman Florida, U.S.A</p> <p><b>Chris Bruijnzeels</b> Director, President &amp; Chief Executive Officer Geneva, Switzerland</p> <p><b>Brian D. Edgar</b> Director Vancouver, British Columbia</p> <p><b>Gary S. Guidry</b> Director Calgary, Alberta</p> <p><b>C. Ashley Heppenstall</b> Director Hong Kong</p>
<b>OFFICERS</b>
<p><b>Brenden Johnstone</b> Chief Financial Officer Geneva, Switzerland</p> <p><b>Kevin E. Hisko</b> Corporate Secretary Vancouver, British Columbia</p>

<b>CORPORATE INFORMATION</b>
<p><b>CORPORATE OFFICE</b> 885 West Georgia Street Suite 2000 Vancouver, British Columbia V6C 3E8 Telephone: +1-604-689-7842 Facsimile: +1-604-689-4250 Website: <a href="http://www.shamaranpetroleum.com">www.shamaranpetroleum.com</a></p> <p><b>OPERATIONS OFFICE</b> 5 Chemin de la Pallanterie 1222 Vésénaz Switzerland Telephone: +41-22-560-8600 Facsimile: +41-22-560-8601</p> <p><b>BANKER</b> HSBC Bank Canada Vancouver, British Columbia</p> <p><b>INDEPENDENT AUDITORS</b> PricewaterhouseCoopers SA Geneva, Switzerland</p> <p><b>TRANSFER AGENT</b> Computershare Trust Company of Canada Vancouver, British Columbia</p> <p><b>STOCK EXCHANGE LISTINGS</b> TSX Venture Exchange and NASDAQ OMX First North Exchange Trading Symbol: SNM</p> <p><b>INVESTOR RELATIONS</b> Sophia Shane Vancouver, British Columbia</p>