SHAMARAN
petroleum corp

2019

SHAMARAN petroleum corp

Annual Report

For the year ended December 31, 2019

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Management's Discussion and Analysis

For the three months ended and year ended December 31, 2019

INTRODUCTION

Management's discussion and analysis ("MD&A") of the financial and operating results of ShaMaran Petroleum Corp. (together with its subsidiaries, "ShaMaran" or the "Company" or "We") is prepared with an effective date of March 3, 2020. The MD&A should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2019, together with the accompanying notes.

Basis of Preparation

The MD&A and the Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

Unless otherwise stated herein all currency amounts indicated as "$" in this MD&A are expressed in thousands of United States dollars ("USD").

Overview of the Company

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

Oil production from Atrush commenced in July 2017. Installed production facilities have a capacity of over 50,000 barrels of oil per day ("bopd"). Fourteen wells have been drilled to date and ten wells are currently producing.

Atrush's production guidance for 2020 is 44,000 to 50,000 bopd. The deployment of additional installed well capacity in 2020 will optimize currently underutilized productive facilities and harvest cash flows for future development plans. Plans include commencing construction of a gas solution at the Atrush Permanent Production Facilities ("PF-1") which will sweeten gas for displacement of current diesel use for use in the facilities and will significantly reduce and ultimately eliminate gas flaring in the block, an important step forward in environmentally responsible development.

The Atrush Block is located in the Kurdistan Region of Iraq, approximately 85 kilometres northwest of Erbil, the capital of Kurdistan. The Atrush Block is 269 square kilometres in area and has oil proven in Jurassic fractured carbonates in the Chiya Khere structure. Total discovered oil in place in the Atrush Block is a low estimate of 1.6 billion barrels, a best estimate of 2.0 billion barrels and a high estimate of 2.6 billion barrels.

Atrush is continuously being appraised and further phases of development, including further drilling and possible facilities expansion, will be defined based on production data, appraisal information and economic circumstances.

Management's Discussion and Analysis
For the three months ended and year ended December 31, 2019

2019 HIGHLIGHTS

Atrush Block delivered significant production growth as planned and ahead of schedule.

In 2019, Atrush reached another production milestone, commissioned a new production facility and met production targets. With significant gains in production and a larger working interest in Atrush, up from 20.1% at end of last year to 27.6% at end of current year, the Company has created greater cash flow and future growth. Based on continued operational success, the Company believes Atrush provides a strong and stable foundation to fund organic growth and act on potential accretive opportunities.

Operations

Achieved significant milestone:
- Total oil exported from the Atrush field since commissioning in 2017 reached 25 million barrels in early February 2020.

Strong production performance:
- Atrush produced 46% more oil in 2019 compared to 2018 production (32,393 bopd vs. 22,157 bopd) and was within production guidance range of 30,000 to 35,000 bopd.
- Production trended up throughout the year and in Q4.2019 was 52% more than in Q4.2018 production (41,648 bopd vs. 27,426 bopd).
- Since the CK-15 well came online in December, Atrush average daily production was over 47,450 bopd and, during this period, intermittently reached the upper range of our exit rate guidance of 50,000 bopd.

Increased capacity throughout the year:
- Atrush well capacity was in excess of the newly deployed processing capacity of by end of 2019, mainly due to a drilling campaign which delivered four production wells ahead of schedule and under budget resulting in an increase by 24,000 bopd. Of the total increase 8,000 bopd came online in Q4.2019 through the completion of the CK-15 well.
- Atrush production capacity increased to over 50,000 bopd by end of 2019, up by more than 20,000 bopd over last year end, due to upgrades and debottlenecking in PF-1 and the addition of an Early Production Facility ("EPF").

Strengthened operational cash flows:
- Operational cash flows, calculated on a normalized basis, increased by $3.5 million (up 14%) from $25.3 million in 2018 to $28.8 million in 2019 due to higher Atrush production and the Company's increased Atrush working interest. Normalized operational cash flows rose by $9.3 million (up 138%) from $6.7 million in Q4.2018 to $16 million in Q4.2019. The increased cash flows were achieved despite oil sales at average oil prices that were lower by 11% and 9%, between the comparable years and quarters, respectively.

Decreasing lifting costs:
- The average lifting cost per barrel of oil produced from Atrush was $7.33 per barrel which was down from $7.41 per barrel in the year 2018.
- The trend in decreasing average lifting costs continued as the year progressed with $5.32 per barrel Q4.2019 (Q4.2018: $7.84 per barrel). The decrease relates mainly to spreading lifting costs over larger volumes of oil production.

Reserves and Resources

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

Financial and Corporate

Increased ownership interest in Atrush by 37.3%.
- During the year the Company completed the acquisition of an additional 7.5% participating interest in the Atrush Block production sharing contract ("PSC"), bringing ShaMaran's total interest in Atrush up from 20.1% to 27.6%, giving our shareholders greater exposure to a high-quality, producing asset.

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[1] This estimate of remaining recoverable resources (unrisked) includes contingent resources that have not been adjusted for risk based on the chance of development. It is not an estimate of volumes that may be recovered.

Continued self-funding of Atrush development.

- The Company received \$55.8 million in 2019 for its entitlement share of Atrush PSC profit oil and cost oil for oil deliveries made from October 2018 to July 2019. Subsequent to the balance sheet date a further \$12 million has been collected for August and September oil sales.
- The Company collected \$5.7 million in 2019 of Atrush Exploration Costs receivable[2]. Subsequent to the balance sheet date a further \$2 million has been collected for August and September oil sales.
- The Company received \$15.9 million in 2019 in payments of principal plus interest on the Atrush Development Cost Loan and the Atrush Feeder Pipeline Cost loans. Both loans were fully repaid in October 2019.

OPERATIONS REVIEW

Production

	Three months ended Dec 31		Year ended Dec 31	
	2019	2018	**2019**	2018
Atrush average daily oil production – gross 100% field (Mbopd)	41.7	27.4	32.4	22.2
Atrush oil sales – gross 100% field (Mbbl)	3,832	2,523	11,823	8,083
ShaMaran's entitlement in Atrush oil sales:				
• Mbbl related to initial 20.1% interest (full year)	370	276	1,173	871
• Mbbl related to additional 7.5% interest (Jun- Dec 2019)	138	-	277	-
• Mbbl related to priority cost oil allocation (2018 only)	-	-	-	406
Total Company entitlement (Mbbl)	508	276	1,450	1,277

Atrush production for the year was up 46% over last year and by 52% more in Q4.2019 compared to Q4.2018 mainly due to:

- Additional production from new wells Chiya Khere-6 ("CK-6"), Chiya Khere-7 ("CK-7"), Chiya Khere-10 ("CK-10"), Chiya Khere-11 ("CK-11"), Chiya Khere-12 ("CK-12"), Chiya Khere 13 ("CK-13") and CK-15.
- Installation and operations of the EPF at the Chamanke-E drilling location.
- Resolution of processing constraints associated with salt production.
- Debottlenecking of PF-1.

Production entitlement increased by 14% in 2019 compared to 2018. Excluding from 2018 entitlement the additional 406Mbbl of entitlement barrels received in respect of the priority cost sharing arrangement the increase over last year is a significant 579Mbbl (66.5%). The increase in entitlement between Q4 of 2019 and 2018 was 232Mbbl (84%). For more information on the 406Mbbl priority cost oil entitlement allocation received in 2018 refer to section on "Revenue" under "Financial Results" in this MD&A below.

Drilling and Completions

The CK-11 well at the Chamanke-G drilling location was brought online for production on May 10. The well is currently producing at rates over 7,000 bopd.

The CK-12 well at the Chamanke-E drilling location was brought online on August 10, 2019. The CK-12 well was worked over in December 2019 to replace a failed completion component and is now back online at 2,000 bopd.

The CK-13 well at the Chamanke-E drilling location was brought online on September 18 and is currently producing at 6,000 bopd.

The CK-15 well at the Chamanke-G drilling location was drilled to a total depth of 2,181 metres by November 8. The well was completed with the drilling rig, brought online on December 10 and is currently producing at 8,000 bopd.

[2] The Exploration Costs Receivable is related to the repayment of certain development costs that ShaMaran paid on behalf of the KRG which, for purposes of repayment, are governed under the Atrush PSC and the related Facilitation Agreement and are deemed to be Exploration Costs.

Facilities

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

The Heavy Oil Extended Well Testing ("HOEWT") facilities added 5,000 bopd of additional processing capacity at Chamanke-C drilling location from Q2. During Q4, with the EPF operational and debottlenecked, the HOEWT was demobilized to save cost.

A planned shutdown of the Kurdistan-Turkey pipeline on September 29 was used to progress key debottlenecking of PF-1 as well as plant upgrades for installation of desalter units.

Field Development Planning

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

Reserves and Resources

Subsequent to year end, on February 17, 2020, the Company reported estimated reserves and contingent resources for the Atrush field as at December 31, 2019, as reported by the Company's independent reserves and resources evaluator, McDaniel & Associates Consultants Ltd ("McDaniel").

Total field proven plus probable ("2P") reserves on a Company gross basis for Atrush increased from 21.3 million barrels reported as at December 31, 2018, to 29.9 million barrels as at December 31, 2019.

Total field unrisked best estimate contingent oil resources ("2C")[3] on a Company gross basis for Atrush increased from the 2018 estimate of 53.9 million barrels to 67.2 million barrels as at December 31, 2019.

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

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

Operations Guidance

The Company reiterates the guidance for 2020 provided in its news release of February 25, 2020, as follows:

- Atrush field gross average daily production is expected to range from 44,000 bopd to 50,000 bopd. Final 2020 production will depend principally on well, facility and export pipeline uptimes.
- Atrush average lifting costs are estimated to range from $5.50 per barrel to $6.70 per barrel. Atrush lifting costs are mainly fixed costs and therefore we expect the dollar-per-barrel estimates to decrease with increasing levels of production; and
- Atrush gross capital expenditures for 2020 are estimated at $131 million ($36 million net to ShaMaran) for facility improvements and operating efficiencies, including:
    - installation of facilities designed to eliminate gas flaring at Atrush, an important initiative in environmentally responsible operations;
    - installation of additional flowlines to debottleneck existing flowlines and provide capacity for future field expansion;
    - installation of permanent water injection facilities in order to be able to demobilize rental facilities currently in operation.

The deployment of additional installed well capacity in 2020 will optimize currently underutilized productive facilities and harvest cash flows for future development plans. Plans include commencing construction of a gas solution at PF-1 which will sweeten gas for displacement of current diesel use in the facilities and will significantly reduce and ultimately eliminate gas flaring in the block, an important step forward in environmentally responsible development.

[3] This estimate of remaining recoverable resources (unrisked) includes contingent resources that have not been adjusted for risk based on the chance of development. It is not an estimate of volumes that may be recovered.

Business Overview

Ownership and Principal Terms of the Atrush PSC

Ownership

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

On May 30, 2019 Marathon Oil KDV B.V ("MODKV") sold its 15% interest jointly to TAQA Atrush B.V and GEP, increasing the Company's interest in the Atrush Block from 20.1% to 27.6%.

For additional background and history on Atrush ownership please refer to the Company's Annual Information Form for the year ended December 31, 2019 , which is available for viewing both on the Company's web-site at www.shamaranpetroleum.com and on SEDAR at www.sedar.com, under the Company's profile.

Principal Terms of the Atrush PSC

Under the terms of the Atrush PSC, the development period is for 20 years after the declaration of commerciality (November 7, 2012) with an automatic right to a five-year extension and the possibility to extend for an additional five years. All qualifying petroleum costs incurred by the Contractors shall be recovered from a portion of available petroleum production, defined under the terms of the Atrush PSC. All modifications to the Atrush PSC are subject to the approval of the KRG.

Fiscal terms under the Atrush PSC include a 10% royalty and a variable profit split based on a percentage share to the KRG. GEP has the right to recover costs using up to 40% of the available oil (produced oil less royalty oil) and 55% of the produced gas. The Contractors are entitled to cost recovery in respect of all costs and expenditures incurred for exploration, development, production and decommissioning operations, as well as certain other allowable direct and indirect costs.

The portion of profit oil available to the Contractors is based on a sliding scale from 32% to 16% depending on the "R-Factor," which is a ratio of cumulative revenues to cumulative costs. When the ratio is below one, the Contractors are entitled to 32% of profit oil, with a reducing scale to 16% when the ratio is greater than 2.75. In respect of gas, the sliding scale is from 40% to 22%.

Outlook

ShaMaran's well-timed acquisition of an additional ownership in Atrush Block provides the Company with greater exposure to a high-quality oil field with significant and demonstrated growth potential. The operating asset is delivering consistently on guidance as the PSC prudently plans out incremental production growth. Forecasted production supports increased cash flow which will allow the Company to continue to fund ongoing organic growth and act on potential new accretive opportunities as they present themselves. As a Lundin Group Company, ShaMaran can leverage the expertise and strength of a family that has been building resource companies around the world for more than 40 years.

FINANCIAL REVIEW

Financial Results

Selected Quarterly Financial Information

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

USD Thousands (except per share data)	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018
Continuing operations:								
Revenue	**24,345**	18,804	15,071	12,071	14,531	13,240	15,328	26,501
Cost of goods sold	**(14,071)**	(13,648)	(12,233)	(10,307)	(15,969)	(6,945)	(6,990)	(12,168)
General and admin expense	**(2,975)**	(1,881)	(1,996)	(1,580)	(1,913)	(785)	(941)	(925)
Share based payments	**(205)**	(339)	(400)	-	-	-	-	-
Depreciation and amortization	**(46)**	(52)	(3)	(2)	(1)	(1)	(2)	(4)
Finance cost	**(5,507)**	(5,402)	(5,449)	(9,067)	(7,347)	(8,586)	(3,016)	(4,230)
Finance income	**71**	112	235	408	900	369	444	443
Net gain on Atrush acquisition	**-**	-	750	-	-	-	-	-
Income tax expense	**(26)**	(14)	(43)	(18)	(25)	(12)	(11)	(16)
Net income / (loss)	**1,586**	**(2,420)**	**(4,068)**	**(8,495)**	**(9,824)**	**(2,720)**	**4,812**	**9,601**
Basic and diluted net inc / (loss) in $ per share	**0.001**	(0.001)	(0.002)	(0.004)	(0.005)	(0.001)	0.002	0.004

Summary of Principal Changes in the Fourth Quarter Financial Information

The fourth quarter 2019 results, of $1.6 million net income, were primarily driven by the Company's 27.6% participating interest in Atrush Block production operations and development activities, general and administrative expenses and finance costs related to the Company's $190 million of bonds outstanding. The income and expenses in the fourth quarter are explained in more detail along with the annual financial information in the following sections.

Selected Annual Financial Information

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

USD Thousands (except per share data)	For the year ended December 31, 2019	2018	2017
Revenues	**70,291**	69,600	17,689
Cost of goods sold	**(50,259)**	(42,072)	(14,009)
General and administrative expense	**(8,432)**	(4,564)	(4,511)
Share based payments expense	**(944)**	-	(11)
Depreciation and amortisation expense	**(103)**	(8)	(26)
Finance income	**790**	2,091	1,649
Finance cost	**(25,389)**	(23,114)	(12,195)
Net gain on Atrush acquisition	**750**	-	-
Income tax expense	**(101)**	(64)	(85)
(Loss) / income for the year	**(13,397)**	**1,869**	**(11,499)**
Basic and diluted loss in $ per share:	**(0.01)**	-	(0.01)

Financial position – net book value of principal items	As at December 31, 2019	2018	2017
Property plant & equipment	**207,903**	195,908	184,921
Loans and receivables	**77,317**	61,283	76,973
Exploration and evaluation assets	**67,649**	67,829	89,119
Cash and other assets	**15,837**	94,756	5,468
Right of use asset	**309**	-	-
Total assets	**369,015**	**419,776**	**356,481**
Borrowings	**(189,546)**	(236,717)	(185,692)
Other liabilities	**(37,333)**	(28,860)	(18,834)
Shareholders' equity	**142,136**	**154,199**	**151,955**
Common shares outstanding (x 1,000)	**2,160,632**	2,158,632	2,158,632

Summary of Principal Changes in Annual Financial Information

The net loss in 2019 of $13.4 million is attributable to a number of key drivers, several of which are no longer relevant going forward. Oil sales at a lower average annual oil price tightened the gross margin as did the additional other costs of production due to the heavy oil extended well tests which were completed earlier in 2019. Slightly lower depletion costs helped offset these negatives. We are optimistic our 2020 margin will improve on production as 2019 margins were driven by average production of 32.4Mbopd, 45% lower than the midpoint of our 2020 production guidance of 47Mbopd. Several key value-added initiatives to streamline and strengthen the Company's core business technical capacity, corporate structure and business development function drove 2019 general and administrative expenses higher, though we expect the added costs will be phased out over time. Borrowing costs increased in 2019 mainly due to a one-time adjustment to revalue bonds at the time the bonds were amended In February 2019 and the ratio of borrowing costs expensed to capitalized increased relative to the amount in the prior year. Through a reduction in bond principal in 2019 the Company reduced its annual bond interest expense from $25 million in 2018 to $23 million. We plan to pay down an additional $15 million of bonds around mid-year 2020 which will further reduce our bond interest expense to $21.9 million this year, and the Company continues to investigate options to reduce the significant borrowing costs.

The income and expenses detail and the principal changes in annual financial information are further explained in the sections below.

Gross margin on oil sales

USD Thousands	Three months ended Dec 31 2019	Three months ended Dec 31 2018	Year ended Dec 31 2019	Year ended Dec 31 2018
Revenue from Atrush oil sales	24,345	14,531	70,291	69,600
Lifting costs	(5,624)	(3,978)	(21,640)	(12,047)
Other costs of production	(708)	(1,732)	(2,897)	(1,854)
Depletion costs	(7,739)	(10,259)	(25,722)	(28,171)
Cost of goods sold	**(14,071)**	**(15,969)**	**(50,259)**	**(42,072)**
Gross margin on oil sales	**10,274**	**(1,438)**	**20,032**	**27,528**

Revenue from Atrush oil sales: relates to the Company's entitlement share of oil sales from Atrush and between 2019 and 2018 appear relatively flat. However, considering the main variances between the two years, when one excludes from 2018 revenues the $22 million of once-off revenue related to the 406Mbbls of entitlement oil under the priority cost oil sharing arrangement[4], there is a $31 million (66.5%) revenue increase. This is attributed to a 46% increase in Atrush production and a 7.5% additional working interest share in Atrush for the last seven months of the year. Performance for 2019 was offset by lower average annual oil prices by $6.04 which had a negative effect of $9 million between the two years. Our 2019 production was sold at an average annual net oil price of $48.48 after deducting $15.43 average annual discount for oil quality and transportation costs which compares to $54.52 and $15.67, for 2018 oil sales, respectively. The increase in revenues was more dramatic between 2019.Q4 and 2018.Q4 with a nearly $10 million (67.5%) jump. Despite a $2.4 million negative impact due to selling our oil at lower average quarterly oil prices by $4.66, we benefited from increases of $12 million (84%) due to the much higher Atrush production and our larger working interest piece of Atrush.

Lifting costs: are comprised of the Company's share of expenses related to the production of oil from the Atrush Block including operation and maintenance of wells and production facilities, insurance, and the Operator's related support costs. The average lifting cost per barrel of oil produced from Atrush was $5.32 per barrel in Q4. 2019 (Q4 2018: $7.84 per barrel). The decrease related mainly to spreading lifting costs over a larger production volume which was 52% higher the fourth quarter of last year.

For the year 2019 there was an 80% increase in total lifting costs over 2018 relating mainly to the higher production this year and increased costs for well workovers and salt related issues. A key determinant to the variance between 2018 and 2019 is there were no incremental lifting costs in 2018 related to the priority share of the initial exploration cost oil revenues. Lifting costs averaged $7.33 per barrel over the year 2019 compared to $7.41 per barrel in the year 2018 and were within the guidance range which was $6.30 per barrel to $7.90 per barrel.

Other costs of production: include the Company's share of production bonuses paid to the KRG, HOEWT operating costs (there were no HOEWT costs in 2018) and its share of other costs prescribed under the Atrush PSC. Other costs of production in Q4 2018 included $1.7 million paid to the KRG for the Company's share of production bonuses.

Depletion costs: The depletion cost per entitlement barrel in Q4 2019 was $15.23 (Q4 2018: $37.12). The decrease is mainly due to a one-time upward adjustment in 2018 due to a reclass of capital costs from E&E to PP&E at the end of 2018.

The depletion cost per entitlement barrel averaged $17.74 per barrel over the year 2019 compared to $22.07 per barrel in the year 2018. The decrease is mainly due to the increase in the Company's entitlement production between the periods.

Gross margin on oil sales: The gross margin was lower in 2019 by $7.5 million mainly because the higher production and additional 7.5% working interest share added $9.5 million to lifting costs while revenues remained flat, as explained above. Lower 2019 depletion by $2.5 million offset the increase in lifting costs while higher other costs of production by $1 million, related mostly to the heavy oil extended well test, are also attributable to the variance between the two years. A key determinant to the variance between 2018 and 2019 is there were no incremental lifting costs related to the $22 million of once-off priority cost oil revenues from 2018. The Company's gross margin of $10.3 million in Q4.2019 was $11.7 million (81%) higher than gross margin in Q4.2018 despite being impacted negatively by $2.4 million due to sales at lower average prices by $4.66. The upward drivers in the Q4 variance were $10.5 million due to the 52% higher production and an additional 7.5% working interest as well as $3.5 million in combined lower depletion and other costs of production. We believe the Q4.2019 gross margin is a good indicator of what Atrush can generate under current production, oil price and lifting cost assumptions.

[4] The Company's entitlement share in the first two quarters of 2018 included an adjustment for the exploration cost sharing arrangement between TAQA and GEP. TAQA and GEP had under the Atrush JOA agreed a priority arrangement for sharing their combined initial $49.9 million share of exploration cost oil revenues such that TAQA received the initial $10.8 million and GEP received the next $39.1 million. Thereafter cost oil revenues for these two parties has been determined by their relative participating interests in the Atrush PSC. In 2018 the Company completed the recovery of its priority allocation of cost oil with resulted in the receipt of $22 million of cost oil revenues in addition to the Company's working interest share of cost oil.

General and administrative expense

USD Thousands	Three months ended Dec 31		Year ended Dec 31	
	2019	**2018**	**2019**	**2018**
Salaries and benefits	1,645	1,045	4,244	2,494
Management and consulting fees	684	156	2,269	463
General and other office expenses	172	86	441	332
Legal, accounting and audit fees	216	472	793	682
Travel expenses	215	87	408	258
Listing costs and investor relations	43	67	277	335
General and administrative expense	**2,975**	**1,913**	**8,432**	**4,564**

The higher general and administrative expense incurred in the quarter and the year 2019 compared to the same periods of 2018 was principally due to higher costs related to value-added initiatives to streamline and strengthen the Company's core business technical capacity, corporate structure and business development function resulting in added management and consulting fees as well as travel. The Company also incurred additional costs related to strengthening number of staff in the Company's Swiss service office, benefits relating to the Company's short-term incentive plan, and one-off costs incurred in relocating the Swiss office. The Company notes that approximately $1.4 million of the increase in costs in 2019 related to a change in executive management, office relocation and once-off capacity building initiatives.

Share based payments expense

USD Thousands	Three months ended Dec 31		Year ended Dec 31	
	2019	**2018**	**2019**	**2018**
DSU expense	3	-	199	-
RSU expense	61	-	92	-
Option expense	141	-	653	-
Total share-based payments	**205**	**-**	**944**	**-**

The share-based payments expense results from the vesting of stock options, granted deferred share units ("DSUs") and restricted share units ("RSUs") in the year 2019. In the year ended December 31, 2019, 25,070,000 stock options (year 2018: nil), 11,600,000 RSUs (year 2018: nil) and 3,600,265 DSUs (year 2018: nil) were granted to certain senior officers and other eligible persons of the Company. The Company uses the fair value method of accounting for stock options, DSUs and RSUs whereby the fair value of all the grants is ultimately charged to operations. The fair value of common share options granted is estimated on the date of grant using the Black-Scholes option pricing model. DSUs and RSUs are initially fair valued on the grant date, thereafter DSUs are revalued on each balance sheet date due. Also refer to the discussion under the "Outstanding share data, share units and stock options" section below.

Depreciation and amortization expense

USD Thousands	Three months ended Dec 31		Year ended Dec 31	
	2019	**2018**	**2019**	**2018**
Depreciation and amortization expense	46	1	103	8

Depreciation and amortization expense corresponds to cost of use of the office, furniture and IT equipment at the Company's technical and administrative offices located in Switzerland and Kurdistan. The increase from 2018 to 2019 in the 12 months is due to the purchase of new furniture and IT equipment in the new Swiss office and the treatment of the Swiss office lease under the new 2019 accounting standard IFRS 16 Leases. A right-of-use asset for the lease has been recognised on the balance sheet and is depreciated over the term of the lease.

Finance income

USD Thousands	Three months ended Dec 31		Year ended Dec 31	
	2019	**2018**	**2019**	**2018**
Interest on Atrush Development Cost Loan	1	151	242	836
Interest on Atrush Feeder Pipeline Cost Loan	4	99	173	535
Interest on deposits	66	645	375	720
Total interest income	**71**	**895**	**790**	**2,091**
Foreign exchange gain	-	5	-	-
Total finance income	**71**	**900**	**790**	**2,091**

The loan interest amounts reported represent 7% per annum interest on the principal balances outstanding over the period. The interest on the loans decreased in Q4 2019 compared to Q4 2018 due to both loans being fully repaid in October 2019. The overall decrease in 2019 compared to 2018 is due to the declining principal balances as the loans are being repaid. For further information on the loans refer to the discussion under the "Loans and receivables" section below.

Interest on deposits represents bank interest earned on cash, investments and restricted cash held in interest bearing funds. The increase in interest income reported to date in 2019 relative to the amount reported in 2018 is due to a higher level of interest-bearing funds held at the end of 2018.

Finance cost

USD Thousands	Three months ended Dec 31		Year ended Dec 31	
	2019	**2018**	**2019**	**2018**
Interest charges on bonds at coupon rate	5,764	7,280	23,417	25,428
Amortization of bond transaction costs	33	183	848	1,087
Re-measurement of bond debt	-	-	2,131	-
Call premiums on early retirement of bonds	-	-	-	1,427
Total borrowing costs	**5,797**	**7,463**	**26,396**	**27,942**
Foreign exchange loss	91	-	55	26
Lease – interest expense	1	-	2	-
Unwinding discount on decommissioning provision	(15)	6	(14)	5
Total finance costs before borrowing costs capitalized	**5,874**	**7,469**	**26,439**	**27,973**
Borrowing costs capitalized	(367)	(122)	(1,050)	(4,859)
Finance cost	**5,507**	**7,347**	**25,389**	**23,114**

The decrease in interest charges on bonds at coupon rate reported in Q4 2019, compared to Q4 2018, is due to less bonds outstanding at the balance sheet date, $190 million at Q4 2019 compared to $240 million at Q4 2018, slightly offset by an increase in the coupon rate of 0.5%, 12% in Q4 2019 compared to 11.5% in Q4 2018.

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

Amortization of bond transaction costs in the year ended December 31, 2019, includes a loss of $671 thousand related to the partial settlement of debt in the period.

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

Net Gain on Atrush acquisition

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

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

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

* IFRS 3 requires to fair value all assets and liabilities acquired. This included the fair market value of the property, plant and equipment acquired, which the Company has approximated with reference to the $18.4 million price paid in the acquisition and other market indicators of the value of the property. All other fair values correspond to payment terms fixed by contract or, due to the short-term nature, are readily convertible to or settled with cash and cash equivalents.

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

Income tax expense

	Three months ended Dec 31		Year ended Dec 31	
USD Thousands	2019	2018	2019	2018
Income tax expense	26	25	101	64

Income tax expense relates to provisions for income taxes on service income generated in Switzerland which is based on costs incurred in procuring the services. The increase in tax expense reported in the year ended December 31, 2019 compared to 2018 is primarily due to higher taxable income in the Company's Swiss subsidiary which increased due to higher costs of service.

Capital Expenditure

Capital Expenditures on Property, Plant & Equipment ("PP&E")

The net book value of PP&E is principally comprised of development costs related to the Company's share of Atrush PSC proved and probable reserves as estimated by McDaniel less the cumulative depletion costs corresponding to commercial production which commenced in July 2017. The movements in PP&E are explained as follows:

	Year ended December 31, 2019			Year ended December 31, 2018		
USD Thousands	Oil and gas assets	Office equipment	Total	Oil and gas assets	Office equipment	Total
Opening net book value	**195,897**	**11**	**195,908**	**184,918**	**3**	**184,921**
Additions	25,971	224	26,195	17,356	12	17,368
Reclass from intangible E&E assets	-	-	-	21,794	-	21,794
Atrush acquisition	11,549	-	11,549	-	-	-
Depletion and depreciation expense	(25,722)	(27)	(25,749)	(28,171)	(4)	(28,175)
Net book value	**207,695**	**208**	**207,903**	**195,897**	**11**	**195,908**

During the 12 months of 2019 movements in PP&E were comprised of additions of $26.2 million (year 2018: $17.4 million), Atrush acquisition increase of $11.5 million (year 2018: $nil), depletion and depreciation expense of $25.7 million (year 2018: $28.2 million) and a reclass to PP&E from E&E of $nil (year 2018: $21.8 million) which resulted in a net increase of $12.0 million to the net book value of PP&E assets. Net additions in the year 2019 included capitalized borrowing costs of $1.0 million (year 2018: $5.0 million). For further information on the Atrush acquisition PP&E asset increase of $11.5 million please see the section above "Net gain on Atrush acquisition".

Capital Expenditures on Intangible Assets

The net book value of Intangible assets is principally comprised of exploration and evaluation ("E&E") assets which represent the Atrush Block exploration and appraisal costs related to the Company's share of Atrush Block contingent resources as estimated by McDaniel. The movements in Intangible assets are explained as follows:

	Year ended December 31, 2019			Year ended December 31, 2018		
USD Thousands	E&E assets	Software & Licences	Total	E&E assets	Software & Licences	Total
Opening net book value	**67,825**	**4**	**67,829**	**89,113**	**6**	**89,119**
(Reversal) / additions	(209)	39	(170)	506	3	509
Reclass to PP&E	-	-	-	(21,794)	-	(21,794)
Amortization expense	-	(10)	(10)	-	(5)	(5)
Net book value	**67,616**	**33**	**67,649**	**67,825**	**4**	**67,829**

During the year 2019 movements in intangible assets comprised of a net reversal of $209 thousand (year 2018: $506 thousand for additions) mainly due to the release of an overestimate of insurance costs and a reclass of $nil (year 2018: $21.8 million) from E&E to PP&E, Movements in other intangible assets were comprised of additions of $33 thousand for computer software (year 2018: $3 thousand) net of depreciation of $4 thousand (year 2018: $5 thousand). This resulted in a net decrease to intangible assets of $180 thousand.

Financial Position and Liquidity

Loans and receivables

In November 2016 the Company entered into certain agreements with the KRG and other Atrush contractors for the reimbursement by the KRG to the Atrush contractors of certain Atrush exploration and development costs and pipeline costs incurred by KRG in the years 2013 through 2017 which were funded by the Atrush contractors. The Atrush Exploration Costs receivables, which relate to a share of the KRG's development costs carried by ShaMaran prior to the year 2016 and deemed to be exploration costs under the Atrush PSC, are repaid through an accelerated petroleum cost recovery arrangement. Repayment in full of both the Atrush Development Cost Loan and the Atrush Feeder Pipeline Cost Loan was completed in October 2019, which were repaid with interest at 7% per annum.

At year end the Company had loans and receivables outstanding as follows:

USD Thousands	For the year ended December 31 2019	2018
Atrush Exploration Costs receivable	41,782	34,898
Accounts receivable on Atrush oil sales	35,535	14,531
Atrush Feeder Pipeline Cost Loan	-	4,718
Atrush Development Cost Loan	-	7,136
Total loans and receivables	**77,317**	**61,283**

In 2019 the Company received principal plus interest payments totaling $9.8 million for Atrush Development Cost Loan and $6.1 million for the Atrush Feeder Pipeline Cost Loan, as well as $5.7 million of Atrush Exploration Cost receivables.

In the period from the balance sheet date up to the date of this MD&A the Company received $14.0 million in total payments for loans and receivables balances outstanding at December 31, 2019, comprised of $12 million in total payments for its entitlement share of oil sales for the months of August and September and $2.1 million in reimbursements of the Atrush Exploration Costs receivable.

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

Borrowings

On February 1, 2019, bondholders approved of certain amendments to the $240 million of senior unsecured bonds ("the ShaMaran bonds") agreement including the repayment of $50 million plus accrued interest and the release to the Company of $14.4 million of Company cash pledged to the bondholders as security for the Company's obligations under the ShaMaran bonds to be used to fund the acquisition and for general corporate purposes. On February 8, 2019 the Company repaid $50 million of ShaMaran Bonds and $550 thousand of related accrued interest. On July 5, 2019 the Company issued the second semi-annual interest payment to ShaMaran bondholders in the amount of $11.4 million. At December 31, 2019, there were $190 million of ShaMaran Bonds outstanding.

Nemesia S.à.r.l. ("Nemesia"), a company controlled by a trust settled by the estate of the late Adolf H. Lundin, agreed to guarantee the Company's obligations under the ShaMaran Bonds agreement (the "Liquidity Guarantee") up to an amount of $22.8 million. In exchange for providing the Liquidity Guarantee the Company issued Nemesia 2,000,000 common shares of ShaMaran on January 23, 2019. The fair value of the shares issued of $150 thousand has been accounted for as bond transaction costs and is being amortised over the term of the bonds. In case of a draw down on the Liquidity Guarantee, the Company is required to issue to Nemesia a further 50,000 shares of ShaMaran for each $500 thousand drawn down per month until the drawn amount is repaid.

The movements in borrowings are explained as follows:

USD Thousands	For the year ended December 31 2019	2018
Opening balance	**250,797**	**188,491**
Interest charges at coupon rate	23,417	25,428
Re-measurement of bond debt	2,131	-
Amortization of bond transaction costs	848	1,087
Bond issued – net of transaction costs	-	236,361
Call premiums on early retirement of bonds	-	1,427
Bond transaction costs	(150)	-
Payment to Bondholders – interest and call premiums	(26,350)	(15,575)
Bonds retired	(50,000)	(186,422)
Ending balance	**200,693**	**250,797**
Current portion: borrowings plus accrued bond interest expense	26,147	14,080
Non-current portion: borrowings	174,546	236,717

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

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

Liquidity and Capital Resources

	Three months ended December 31		Year ended December 31	
	2019	2018	**2019**	2018
Selected liquidity indicators				
Cash flow from operations (reported)	1,882	6,722	14,629	47,407
Cash flow from operations (normalized)	16,030	6,722	28,777	25,279
Cash in bank			15,530	92,470
Positive working capital			36,822	112,884

Cash flow from operations (normalized) of $28.8 million is calculated for comparative purposes by adding back the exceptional $14 million relating to a two-month delay at year end in collecting cash for oil sales to the reported cash flow from operations of $14.6 million. We expect in 2020 to return to the regular oil sales collection cycle, having in January 2020 already collected cash for oil sales to reduce the receivables balance by $7 million. Normalized cash flow of $25.3 million for 2018 equates to reported operational cash inflows of $47 million less the $22 million of cash flows relating to the priority cost oil recovered during the year. The addition of $3.5 million in normalized operational cash flows between the two years is a 14% increase. For Q4.2019 the $16 million of normalized operational cash flow is determined by adding reported operational cash flows of $2 million to the $14 million of receivables which is attributable to the lengthened collection cycle. This compares with reported operational cash flow for Q4.2018 of $6.7 million which we consider normalized without any adjustment. The $9.3 million increase in normalized operational cash flow between the final quarters of 2019 and 2018 represents a 138% increase.

Working capital at December 31, 2019 was positive $36.5 million compared to positive $112.9 million at December 31, 2018. The decrease in working capital since December 31, 2018 is principally due to the repayment of $50 million of ShaMaran Bonds in February 2019 and the total cash out of $27.2 million on the acquisition of an additional interest in Atrush completed in May 2019.

The overall cash position of the Company decreased by $76.9 million during the 12 months of 2019, increase of $87.2 million during the same period of 2018. The main components of the movement in funds were as follows:

- The operating activities of the Company during the year 2019 resulted in an increase of $14.6 million in the cash position (2018: increase of $47.4 million). The cash position is explained by the net loss of $13.4 million less $28 million of net positive cash adjustments from working capital items, net borrowing costs and non-cash expenses including the net gain on the Atrush acquisition.
- Net cash outflows from investing activities in 2019 were $15.1 million (2018: inflows of $5.5 million). Cash outflows from investing activities in 2019 were comprised of $18.4 million for the Atrush acquisition and $18.8 million on investments in the Atrush Block development work program net of cash inflows of $21.7 million in payments by the KRG of Atrush loans and receivables, which includes interest on the loans, and $0.3 million of interest on deposits.
- Net cash outflows from financing activities in the year were $76.4 million (2018: cash inflows of $34.4 million) due to the repayment by the Company of $50 million of ShaMaran Bonds together with $550 thousand of related accrued interest as well as $26.4 million for the first and second semi-annual interest payment to ShaMaran bondholders in January and July 2019.

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

Off Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Transactions with Related Parties

	Purchase of services During the year		Amounts owing at the balance sheet dates	
	2019	2018	2019	2018
Namdo Management Services Ltd.	50	34	-	-
Bennett-Jones	-	51	-	-
Lundin Petroleum AB	-	104	-	-
Total	**50**	**189**	**-**	**-**

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

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

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

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

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

Also refer to the discussion under the "Outstanding Share Data, Share Units and Stock Options" section below.

Outstanding Share Data, Share Units and Stock options

Common shares

On January 23, 2019, the Company issued to Nemesia 2,000,000 common shares of ShaMaran in accordance with the terms of the Liquidity Guarantee. Therefore, the Company had 2,160,631,534 outstanding shares at December 31, 2019, 2,222,241,746 outstanding shares after dilution and at the date of this MD&A. Refer also to the discussion under the Borrowings section above. The average outstanding shares during year 2019 were 2,160,505,507 before dilution (year 2018: 2,158,631,534) and 2,222,115,719 after dilution (year 2018: 2,183,631,534).

Share units

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

On August 12, 2019, the Company granted a total of 11,660,000 RSUs to certain senior officers and other eligible persons of the Company. The RSU's vest over a period of three years and are redeemable in shares of the company over a period of five years at a price of CAD 0.08 per share. The RSU grant resulted in total charges to the Statement of Comprehensive Income of $92 thousand for the year (2018: nil).

On May 30, 2019, the Company granted a total of 3,600,265 of deferred share units ("DSU") to non-employee directors. The fair value of the DSU's are fully expensed in the period granted, based on the grant date share price of CAD 0.075, at each quarter end the carrying value of the DSU liability is revalued based on the change in the share price, any gains or losses are charged to the Income Statement. At the end of the year this resulted in an overall credit of $1 thousand based on a share price of CAD 0.07 at December 31,2019. During the year 720,053 DSUs were redeemed following the end of service of one of the Company's directors. The DSU grant resulted in total charges to the Statement of Comprehensive Income of $199 thousand for the year (2018: nil).

There has been no further change in the number of share units outstanding from December 31, 2019, to the date of this MD&A.

Stock options

On August 12, 2019, the Company granted a total of 15,070,000 incentive stock options to certain senior officers and other eligible persons of the Company. The options vest over a period of two years and are exercisable over a period of five years at a strike price of CAD 0.08 per share. On May 15, 2019, a grant of 10,000,000 share options was awarded to ShaMaran's Chief Executive Officer. These two option grants resulted in total charges to the Statement of Comprehensive Income of $653 thousand for the year (year 2018: nil). In the same period 3,000,000 share options have expired.

At December 31, 2019 there were 47,070,000 stock options outstanding under the Company's employee incentive stock option plan. No stock options were exercised in the year to date 2019 (year 2018: nil). On January 19, 2020, 22,000,000 share options expired.

The Company has no warrants outstanding.

Contractual Obligations and Commitments

Atrush Block Production Sharing Contract

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

As at December 31, 2019, the outstanding commitments of the Company were as follows:

	For the year ended December 31,				
USD Thousands	2020	2021	2022	Thereafter	Total
Atrush Block development	65,246	166	166	1,656	67,234
Office and other	139	124	51	-	314
Total commitments	**65,385**	**290**	**217**	**1,656**	**67,548**

Amounts relating to Atrush Block development represent the Company's unfunded paying interest share of 27.6% of the approved 2020 work program and other obligations under the Atrush PSC.

Under the terms of the Atrush PSC the Company will owe a share of production bonuses payable to the KRG when cumulative oil production from Atrush reaches production milestones defined in the Atrush PSC as follows: $13.3 million at 25 million barrels (ShaMaran share: $3.67 million); and $23.3 million at 50 million barrels (ShaMaran share: $6.43 million). Cumulative production from Atrush reached 25 million barrels in early February 2020.

Critical Accounting Policies and 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 at the date of the financial statements and affect the reported amounts of revenues and expenses during the period. Specifically, estimates are utilized in calculating depletion, asset retirement obligations, fair values of assets on acquisition of control, share-based payments, amortization and impairment write-downs as required. Actual results could differ from these estimates and differences could be material.

Significant Accounting Policies

The Company adopted *IFRS 16*: Leases effective January 1, 2019. Refer to Note 3 "Significant Accounting Policies" in the Company's Consolidated Financial Statements for the year ended December 31, 2019, for further discussion.

Other standards, amendments and interpretations, which are effective for the financial year beginning on January 1, 2019, have been assessed and do not have a material impact to the Company.

New Accounting Standards Issued But Not Yet Applied

There are no new accounting standards which will come into effect for annual periods beginning on or after January 1, 2020, that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

Accounting for Oil and Gas Operations

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

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

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

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

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

For impairment testing the assets are aggregated into cash generating unit ("CGU") cost pools based on their ability to generate largely independent cash flows. The recoverable amount of a CGU is the greater of its fair value less costs to sell and its value in use. Fair value is determined to be the amount for which the asset could be sold in an arm's length transaction. Value in use is determined by estimating the present value of the future net cash flows expected to be derived from the continued use of the asset or CGU.

Where conditions giving rise to the impairment subsequently reverse the effect of the impairment charge is also reversed as a credit to the statement of comprehensive income net of any depreciation that would have been charged since the impairment.

A substantial portion of the Company's exploration and development activities are conducted jointly with others.

RESERVES AND RESOURCE ESTIMATES

The Company engaged McDaniel to evaluate 100% of the Company's reserves and resource data at December 31, 2019. 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").

The Company's crude oil reserves as at December 31, 2019 were, based on the Company's working interest of 27.6 percent in the Atrush Block, estimated to be as follows:

Company estimated reserves (diluted)
As at December 31, 2019

	Proved Developed	Proved Undeveloped	**Total Proved**	Probable	**Total Proved & Probable**	Possible	**Total Proved, Probable & Possible**
Light/Medium Oil (Mbbl)(1)							
Gross (2)	9,692	4,058	**13,750**	14,614	**28,364**	12,197	**40,561**
Net (3)	5,361	2,285	**7,646**	7,430	**15,076**	4,207	**19,283**
Heavy Oil (Mbbl) (1)							
Gross (2)	273	414	**687**	895	**1,582**	983	**2,565**
Net (3)	151	231	**382**	459	**841**	379	**1,219**

Notes:
(1) The Atrush Field contains crude oil of variable density. Fluid type is classified according to COGEH: Light/Medium Oil is based on density less than 920 kg/m3 and Heavy Oil is between 920 and 1000 kg/m3.
(2) Company gross reserves are based on the Company's 27.6 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 at December 31, 2019, were estimated to be as follows, based on a Company working interest of 27.6 percent in the Atrush Block:

Company estimated contingent resources (diluted) [(1) (2)(4)(5)]
As at December 31, 2019

	Low Estimate (1C)	Best Estimate (2C)	High Estimate (3C)	Risked Best Estimate
Light/Medium Oil (Mbbl) [(3)]				
Gross	7,796	8,300	9,504	6,640
Heavy Oil (Mbbl) [(3)]				
Gross	30,160	58,917	97,073	23,567
Natural Gas (MMcf)				
Gross	4,844	10,103	16,385	505

Notes:
(1) Based on a 27.6 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. Fluid type is classified according to COGEH: Light/Medium Oil is based on density less than 920 kg/m3 and Heavy Oil is between 920 and 1000 kg/m3.
(4) These are unrisked contingent resources that do not account for 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 Light/Medium Crude Oil, 40 percent for the Heavy Crude oil and 5 percent for the Natural Gas.
(5) The contingent resources are sub-classified as "development unclarified" with an "undetermined" economic status.

The contingent resources represent the likely recoverable volumes associated with further phases of development after Phase 1 which differ from reserves mainly due to the uncertainty over the future development plan which will depend in part on Phase 1 production performance and also the field development planning process due to be resolved in 2020.

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

Risks in estimating resources

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

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

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

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

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

FINANCIAL INSTRUMENTS

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

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

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

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

Financial Risk Management Objectives

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

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

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

The Company does not hedge against commodity price risk.

Foreign currency risk: The substantial portion of the Company's operations require purchases denominated in USD, which is the functional and reporting currency of the Company and the currency in which the Company maintains the substantial portion of its cash and cash equivalents. Certain of its operations require the Company to make purchases denominated in foreign currencies, which are currencies other than USD and correspond to the various countries in which the Company conducts its business, most notably, Swiss Francs ("CHF") and Canadian dollars ("CAD"). As a result, the Company holds some cash and cash equivalents in foreign currencies and is therefore exposed to foreign currency risk due to exchange rate fluctuations between the foreign currencies and the USD. The Company considers its foreign currency risk is limited because it holds relatively insignificant amounts of foreign currencies at any point in time and since its volume of transactions in foreign currencies is currently relatively low. The Company has elected not to hedge its exposure to the risk of changes in foreign currency exchange rates.

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

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

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

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

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

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

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

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

RISK AND UNCERTAINTIES

ShaMaran Petroleum Corp. is engaged in the exploration, development and production of crude oil and natural gas and its operations are subject to various risks and uncertainties which include but are not limited to 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 the Company's Annual Information Form, which is available for viewing both on the Company's web-site at www.shamaranpetroleum.com and on SEDAR at www.sedar.com, under the Company's profile.

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: ShaMaran's assets and operations are 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.

There is a risk that levels of authority of the KRG, and corresponding systems in place, could be transferred to the Iraq federal government. Changes to the incumbent political regime could result in delays in operations and additional costs 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. Refer also to the discussion in the section below under "Risks associated with petroleum contracts in Iraq."

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 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 clean-up, 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 Company'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. There is currently 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 payments to oil companies for their entitlement revenues in respect of monthly petroleum production, with producers' most recent reports indicating having received in February 2020 full payments for September 2019 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. The KRG has, since the commencement of oil production exports from Atrush, paid for its share of project development costs in conjunction with the payment cycle for oil deliveries. However, 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 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 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 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 yet 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 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 production: ShaMaran has conducted oil and gas exploration and development activities in Kurdistan for approximately nine years. The current operations are in an early production 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 able to realise its assets and satisfy its liabilities in the ordinary course of business. Management has made assumptions regarding projected oil sale volumes and pricing, and the timing and extent of capital, operating, and general and administrative expenditures. Should production be materially less than anticipated or in case there are extended delays to the forecasted receipt of cash from the sale of oil exports or in the magnitude of those cash receipts, which are under the control of the KRG, and the Company was unable to defer certain planned cost activities, the Company could require additional liquidity to fund the forecasted Atrush operating and development costs and its commitments under the bond agreement in the next 12 months. The Company's future operations are dependent upon certain factors 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 debt or equity 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: Because 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 could require financing to grow its business. The uncertainty which periodically affects financial markets 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 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 Company's Senior Bonds

Possible termination of Atrush PSC / bond agreements in event of default scenario: Should ShaMaran default its obligations under the bond agreement ShaMaran 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 ShaMaran default its obligations under the Atrush PSC and or Atrush JOA, with the effect that these contracts may be terminated or limited, ShaMaran may also default in respect of its obligations under the bond agreement. 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: ShaMaran's ability to make scheduled payments on or to refinance its obligations under the bond agreement will depend on ShaMaran's financial and operating performance which, in turn, will be subject to prevailing economic and competitive conditions beyond ShaMaran's control. It is possible that ShaMaran'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 agreement.

Significant operating and financial restrictions: The terms and conditions of the bond agreement contains restrictions on ShaMaran's and the Guarantors' activities which restrictions may prevent ShaMaran and the Guarantors from taking actions that it believes would be in the best interest of ShaMaran's business, and may make it difficult for ShaMaran 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 ShaMaran is unable to comply with the terms of the bond agreement. A breach of any of the covenants and restrictions could result in an event of default under the bond agreement.

Mandatory prepayment events: Under the terms of the bond agreements the bonds are subject to mandatory prepayment by ShaMaran on the occurrence of certain specified events, including if (i) the ownership in the Atrush Block is reduced to below 27.6% or (ii) an event of default occurs under the bond agreement. Following an early redemption after the occurrence of a mandatory prepayment event, it is possible that ShaMaran 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 agreement.

FORWARD LOOKING INFOMATION

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 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.

Reserves and resources: ShaMaran Petroleum Corp.'s reserve and contingent resource estimates are as at December 31, 2019 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 at 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.

ADDITIONAL INFORMATION

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

The Company plans to publish on May 8, 2020 its financial statements for the three months ended March 31, 2020.

OTHER SUPPLEMENTARY INFORMATION

Abbreviations

CAD	Canadian dollar
CHF	Swiss Franc
EUR	Euro
USD	US dollar

Oil related terms and measurements

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

DIRECTORS

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Geneva, Switzerland

Chris Bruijnzeels
Director, Chairman
Amsterdam, Netherlands

Keith C.Hill
Director
Florida, USA

Terry L. Allen
Director
Calgary, Canada

Michael Ebsary
Director
Geneva, Switzerland

William Lundin
Director
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OFFICERS

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Geneva, Switzerland

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

Kathy Love
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INDEPENDENT AUDITORS

PricewaterhouseCoopers SA,
Geneva, Switzerland

TRANSFER AGENT

Computershare Trust Company of Canada
Vancouver, Canada

STOCK EXCHANGE LISTINGS

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

Independent auditor's report

To the Shareholders of ShaMaran Petroleum Corp.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of ShaMaran Petroleum Corp. and its subsidiaries (together, the Company) as at December 31, 2019 and 2018 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited
The Company's consolidated financial statements comprise:

- the consolidated statement of comprehensive income for the years ended December 31, 2019 and 2018;
- the consolidated balance sheet as at December 31, 2019 and 2018;
- the consolidated statement of cash flows for the years then ended;
- the consolidated statements of changes in equity for the years then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

Independence
We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion & Analysis and Annual Information Form.

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Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express an opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Luc Schulthess.

PricewaterhouseCoopers SA

Luc Schulthess　　　　Colin Johnson

March 3, 2020

Consolidated Statement of Comprehensive Income

For the year ended December 31,

Expressed in thousands of United States dollars	Note	For the year ended December 31, 2019	2018
Revenues	7	**70,291**	**69,600**
Cost of goods sold:			
Lifting costs	8	(21,640)	(12,047)
Other costs of production	8	(2,897)	(1,854)
Depletion	8	(25,722)	(28,171)
Gross margin on oil sales		**20,032**	**27,528**
Depreciation and amortization expense		(103)	(8)
Share based payments expense	22	(944)	-
General and administrative expense	9	(8,432)	(4,564)
Income from operating activities		**10,553**	**22,956**
Finance income	10	790	2,091
Finance cost	11	(25,389)	(23,114)
Net finance cost		**(24,599)**	**(21,023)**
Bargain purchase gain	6	9,500	-
Acquisition related costs	6	(8,750)	-
Net gain on Atrush acquisition		**750**	**-**
(Loss) / income before income tax expense		**(13,296)**	**1,933**
Income tax expense	12	(101)	(64)
(Loss) / income for the year		**(13,397)**	**1,869**
Other comprehensive income			
Items that may be reclassified to profit or loss:			
Currency translation differences		29	18
Items that will not be reclassified to profit or loss:			
Re-measurements on defined pension plan		409	357
Total other comprehensive income		**438**	**375**
Total comprehensive (loss) / income for the year		**(12,959)**	**2,244**
(Loss) / income in dollars per share:			
Basic and diluted		(0.01)	-

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

Consolidated Balance Sheet
As at December 31,

Expressed in thousands of United States dollars	Note	2019	2018
ASSETS			
Non-current assets			
Property, plant and equipment	*13*	207,903	195,908
Intangible assets	*14*	67,649	67,829
Loans and receivables	*16*	21,386	25,184
Right-of-use asset	*15*	309	-
		297,247	**288,921**
Current assets			
Loans and receivables	*16*	55,931	36,099
Cash and cash equivalents, unrestricted		15,480	24,586
Other current assets	*17*	307	2,286
Cash and cash equivalents, restricted	*19*	50	67,884
		71,768	**130,855**
TOTAL ASSETS		**369,015**	**419,776**
LIABILITIES			
Non-current liabilities			
Borrowings	*19*	174,546	236,717
Provisions	*20*	15,715	9,559
Pension liability	23	969	1,330
Lease liability	15	171	-
Other long-term liabilities	22	155	-
		191,556	**247,606**
Current liabilities			
Borrowings	*19*	15,000	-
Accrued interest expense on bonds	*19*	11,147	14,080
Accounts payable and accrued expenses	*18*	9,002	3,875
Lease liability	*15*	132	-
Current tax liabilities		42	16
		35,323	**17,971**
EQUITY			
Share capital	*21*	637,688	637,538
Share based payments reserve		7,241	6,495
Cumulative translation adjustment		17	(12)
Accumulated deficit		(502,810)	(489,822)
		142,136	**154,199**
TOTAL EQUITY AND LIABILITIES		**369,015**	**419,776**

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

Signed on behalf of the Board of Directors

/s/Terry Allen
Terry L. Allen, Director

/s/Keith Hill
Keith C. Hill, Director

Consolidated Statement of Cash Flow

For the year ended December 31,

Expressed in thousands of United States dollars	Note	For the year ended December 31, 2019	2018
Operating activities			
(Loss) / income for the year		**(13,397)**	**1,869**
Adjustments for:			
Depreciation, depletion and amortization expense		25,825	28,179
Borrowing costs – net of amount capitalized		25,346	23,084
Share based payment expense		944	-
Re-measurements on defined pension plan		409	357
Foreign exchange loss	*11*	55	26
Unwinding discount on decommissioning provision		(14)	5
Interest income	*10*	(790)	(2,091)
Bargain purchase gain	*6*	(9,500)	-
Changes in accounts payable and accrued expenses		5,127	(952)
Changes in other current assets		1,979	(2,074)
Changes in current tax liabilities		26	16
Changes in pension liability		(377)	(438)
Changes in accounts receivables on Atrush oil sales		(21,004)	(574)
Net cash inflows from operating activities		**14,629**	**47,407**
Investing activities			
Loans and receivables – payments received		21,735	18,029
Interest received on cash deposits	*10*	375	720
Credits/(Purchases) of intangible assets		176	(632)
Loans and receivables – payments issued		-	(394)
Purchase of additional interest in Atrush	*7*	(18,431)	-
Purchase of property, plant and equipment		(18,975)	(12,259)
Net cash (outflows to) / inflows from investing activities		**(15,120)**	**5,464**
Financing activities			
Net proceeds received on bonds issued		-	100,376
Principal element of lease payments		(81)	-
Payments to bondholders - interest	*19*	(26,350)	(15,575)
Bonds retired	*19*	(50,000)	(50,437)
Net cash (outflows to) / inflows from financing activities		**(76,431)**	**34,364**
Effect of exchange rate changes on cash and cash equivalents		(18)	(21)
Change in cash and cash equivalents		**(76,940)**	**87,214**
Cash and cash equivalents, beginning of the year		92,470	5,256
Cash and cash equivalents, end of the year*		**15,530**	**92,470**
***Inclusive of restricted cash**		**50**	**67,884**

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

Consolidated Statement of Changes in Equity

For the year ended December 31,

Expressed in thousands of United States dollars	Share capital	Share based payments reserve	Cumulative translation adjustment	Accumulated deficit	Total
Balance at January 1, 2018	**637,538**	**6,495**	**(30)**	**(492,048)**	**151,955**
Total comprehensive income for the year:					
Income for the year	-	-	-	1,869	1,869
Other comprehensive income	-	-	18	357	375
	-	-	18	2,226	2,244
Balance at December 31, 2018	**637,538**	**6,495**	**(12)**	**(489,822)**	**154,199**
Total comprehensive (loss) / income for the year:					
Loss for the year	-	-	-	(13,397)	(13,397)
Other comprehensive income	-	-	29	409	438
Transactions with owners in their capacity as owners:					
Bond transaction costs	150	-	-	-	150
Share based payments expense (excluding DSU)	-	746	-	-	746
	150	746	29	(12,988)	(12,063)
Balance at December 31, 2019	**637,688**	**7,241**	**17**	**(502,810)**	**142,136**

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

1. General information

ShaMaran Petroleum Corp. ("ShaMaran" and together with its subsidiaries the "Company") is incorporated under the Business Corporations Act, British Columbia, Canada. The address of the registered office is 25th Floor, 666 Burrard Street, Vancouver, British Columbia V6C 2X8. The Company's shares trade on the TSX Venture Exchange and NASDAQ First North Growth Market (Sweden) under the symbol "SNM".

The Company is engaged in the business of oil and gas exploration and holds an interest in the Atrush Block production sharing contract ("Atrush PSC") related to a petroleum property located in the Kurdistan Region of Iraq ("Kurdistan"). The Atrush Block is currently in the development period and oil production on the Atrush Block commenced in July 2017.

2. Basis of preparation 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. The significant accounting policies of the Company have been applied consistently throughout the year. The policies applied in these consolidated financial statements are based on IFRS which were outstanding and effective as of March 3, 2020, the date these consolidated financial statements were approved and authorized for issuance by the Company's board of directors ("the Board").

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

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 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.

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) 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.

(e) 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 and are subject to the impairment test set out below.

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

(f) 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 accounting for future development expenditures necessary to bring those reserves into production. The reserves correspond to the Company's entitlement to oil under the terms of the PSC. Changes to depletion rates due to changes in reserve quantities and estimates of future development expenditure are reflected prospectively.

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

(g) 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 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.

(h) 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. Gains and losses on derecognition are generally recognized in the consolidated statement of income. The Company derecognises financial liabilities when the Company’s obligations are discharged, cancelled or expelled. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in the consolidated statement of income.

Classification and measurement

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

- Financial Assets at Amortized Cost – Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. This includes the Company’s loans and receivables which consist of fixed or determined cash flows related solely to principal and interest amounts or contractual sales of oil. The Company’s intent is to hold these receivables until cash flows are collected. Financial assets at amortised cost are recognized initially at fair value, net of any transaction costs incurred and subsequently measured at amortized cost using the effective interest method. The Company recognizes a loss allowance for any expected credit losses on a financial asset that is measured at amortized cost.

- Financial Assets at Fair Value through Profit or Loss ("FVTPL") – Financial assets measured at FVTPL are assets which do not qualify as financial assets at amortized cost or at fair value through other comprehensive income. The Company does not currently have any financial assets measured at FVTPL.
- Financial Liabilities at Amortized Cost – Financial liabilities are measured at amortized cost using the effective interest method, unless they are required to be measured at FVTPL, or the Company has opted to measure them at FVTPL. Borrowings and accounts payable are recognized initially at fair value, net of any transaction costs incurred, and subsequently at amortized cost using the effective interest method.
- Financial Liabilities at FVTPL – Financial liabilities measured at FVTPL are liabilities which include embedded derivatives and cannot be classified as amortized cost. The Company does not currently have any financial liabilities measured at FVTPL.

Impairment of financial assets

The Company measures impairment of financial assets based on expected credit losses ("ECL"). Where financial assets have a significant financing component they are asses and a lifetime ECL is determined and measured, and recognized at the date of initial recognition of the loans and receivables. For its loans and receivables, the Company applies the simplified approach to providing for ECLs. In estimating the lifetime ECL provision, the Company considers historical industry default rates as well as the history of its customer.

(i) 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. Restricted cash is cash held in a trust account for a specific purpose and is therefore not available for general business use. Additional disclosure related to the Company's restricted cash is included in Note 19.

(j) 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.

General and specific borrowing costs directly attributable to the acquisition or construction of qualifying assets are capitalised together with the qualifying assets. Once a qualified asset is fully prepared for its intended use and is producing borrowing costs are no longer capitalised. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(k) 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 based on 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 can 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.

Income tax arising from the Company's activities under production sharing contracts is settled by the KRG at no cost and on behalf of the Company. However, the Company is not able to measure with sufficient accuracy the tax that has been paid on its behalf and consequently revenue is not reported gross of income tax paid.

(l) Provisions

Provisions are recognised when the Company has a present obligation, legal or constructive, due to 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, accounting for 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.

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.

(m) 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.

(n) 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.

(o) 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.

(p) Revenue recognition

Sales of oil Production:

Revenue for sales of oil is recognised when the significant risks and rewards of ownership are deemed to have been transferred to the KRG, the amount can be measured reliably and it is assessed as probable that economic benefit associated with the sale will flow to the Company. This occurs when oil reaches the delivery point at the Atrush Block boundary in route to the KRG's main export pipeline.

Revenue is recognised at fair value which is comprised of the Company's entitlement production due under the terms of the Atrush Joint Operating Agreement and the Atrush PSC which has two principal components: cost oil, which is the mechanism by which the Company recovers qualifying costs it has incurred in exploring and developing an asset, and profit oil, which is the mechanism through which profits are shared between the Company, its partners and the KRG. The Company pays capacity building payments on profit oil, which are due for payment once the Company has received the related profit oil proceeds. Profit oil revenue is reported net of any related capacity building payments.

The Company's oil sales are made to the KRG under the terms of a sales agreement which allows for Atrush oil volumes to be sold to the KRG at the Atrush Block boundary at a discount to the Dated Brent oil price for estimated oil quality adjustments and all local and international transportation costs. The Company's single performance obligation in its contract with its customer is the delivery of crude oil at a pre-determined netback adjustment to Dated Brent and the control is transferred to the buyer at the metering point when the revenue is recognised.

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.

(q) Changes in accounting policies

IFRS 16: Leases

IFRS 16: Leases has replaced *IAS 17 Leases* and requires assets and liabilities arising from all leases, with some exceptions, to be recognized on the balance sheet. The new standard is effective for annual periods beginning on or after January 1, 2019. The Company has one lease that must be recognised on the balance sheet under *IFRS 16*. This lease was undertaken in 2019 and therefore no adjustment to the opening balances as of January 1, 2019 was required.

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

Refer also to note 15.

Other standards, amendments, and interpretations, which are effective for the financial year beginning on January 1, 2019, have been assessed and do not have a material impact to the Company.

(r) Accounting standards issued but not yet applied

There are no new accounting standards which will come into effect for annual periods beginning on or after January 1, 2020, that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

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.

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) Revenue Recognition

As explained in Note 3(p) the Company recognises revenues when oil reaches the delivery point at the Atrush Block boundary on the basis that control is deemed to have passed to the buyer and that the transaction price has been agreed upon. The conclusion that the economic benefits will flow to the Company at this point is based on management's evaluation of the reliability of the KRG's payments to the international oil companies operating in Kurdistan in exchange for their oil deliveries. In February 2016 of the KRG announced its intention to apply the PSC terms to pay Kurdistan oil exporters regularly for Kurdish oil sales. At the date these financial statements were approved the Company has received payments for its share of all oil deliveries made from July 2017, when Atrush production began, through September 2019.

(b) 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 2020 the Company received an independent reserves and resources report from McDaniel & Associates Consultants Ltd. ("McDaniel") which estimates the Proven plus Probable Oil Reserves on a Company gross basis for the Atrush Block as of December 31, 2019, have increased from 21.3 million barrels reported as at December 31, 2018, to 29.9 million barrels as of December 31, 2019, a 40% increase. Total unrisked best estimate contingent oil resources on a Company gross basis for Atrush increased from the 2018 estimate of 53.9 million barrels to 67.2 million barrels as of December 31, 2019.

(c) Loans and receivables

The Company has reported receivables of $77.3 million comprised of the Company's share of Atrush oil sales and the Atrush Exploration Costs receivables, which relate to a share of the KRG's development costs carried by ShaMaran prior to the year 2016 and deemed to be exploration costs under the Atrush PSC, and which are repaid through an accelerated petroleum cost recovery arrangement. The recovery of these amounts depends on several factors, including: the continued 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, up to the date these financial statements were approved the Company has received payments from the KRG for its entitlement revenues in respect of petroleum production up to September 2019.

In the year 2020 up to the date these financial statements were approved the Company received a total of $14 million in payments relating to the loans and receivables balances outstanding at December 31, 2019. Under the terms of the relevant agreements the loans and receivable balances are recoverable in several ways including by cash settlement and or through payment in kind of petroleum production.

Management expects the Company's receivables balances at year end to be fully collected in line with the agreements relating to the Company's interest in the Atrush Block oil and gas asset. Therefor the Company has not recognized an ECL provision related to the receivables. Refer also to Note 16.

(d) 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(g) and 3(h) 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 factors which could impact the ability of the assets to generate future cash flows including the following key items:

- *The acquisition of an additional 7.5% participating interest in Atrush:* accounting for the business combination in May 2019, under *IFRS 3*, a market participant view was applied when determining the fair value of assets acquired. For impairment purposes under *IAS 36* the higher of the fair value less cost of disposal and value in use is to be considered. The purchase price paid and the value assigned to PP&E, under IFRS 3, were significantly below the fair value of the asset that would be considered for the purpose of an impairment assessment. The discounted sales price, and low fair value attributed to assets acquired, were due to unique factors surrounding the sale. Therefore no indicator for impairment was identified as a result of the transaction.
- *Reserves:* there has been an increase, taking into account 2019 production, in the Company's share of the latest estimated proved and probable reserves for Atrush and the related production curve estimates as determined by McDaniel.
- *NPV calculations:* 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.
- *Costs per barrel:* the forecasted costs per barrel required to recover the Atrush oil reserves have remained consistent to last year;
- *Cash collection:* the collectability of cash for sales of Atrush oil which has remained stable since production commenced.
- *Market:* 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.
- *Independent valuations:* the average fair value of the Atrush asset as published by an independent market broker, support the carrying values of the Atrush oil and gas assets.

Refer also to Notes 6,13, 14 and 16.

(e) Decommissioning and site restoration provisions

The Company recognises a provision for decommissioning and site restoration costs expected to be incurred 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 20.

(f) Fair value of assets acquired and liabilities assumed in the increase of participating interest

The fair value of assets acquired and liabilities assumed in the increase of participating interest in the Atrush block, as described in Note 6, is estimated based on information available at the date of acquisition. Various valuation techniques are applied for measuring fair value including market comparables and discounted cash flows which rely on assumptions such as forward commodity prices, reserves and resources estimates, production costs and discount rates. Changes in these variables could significantly impact the carrying value of the net assets. The Company already holds an interest in the Atrush block and has a reasonable basis for establishing the fair value of the assets and liabilities acquired in this transaction.

Expressed in thousands of United States dollars

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.

6. Increase of participating interest in the Atrush block

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

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

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

**IFRS 3* requires to fair value all assets and liabilities acquired. This included the fair market value of the property, plant and equipment acquired, which the company has approximated with reference to the $18.4million price paid in the acquisition and other market indicators of the value of the property. All other fair values correspond to payment terms fixed by contract or, due to the short-term nature, are readily convertible to or settled with cash and cash equivalents.

**The fair value of the provision for decommissioning and site restoration at the acquisition date was based on the estimated future cash flows to retire the acquired portion of the oil and gas property at the end of its useful life. The discount rate used to determine the net present value of the provision was a rate of 1.71 percent.

Refer also to Notes 7, 8, 13, 17 and 20.

7. Revenues

Revenues relate entirely to the Company's entitlement share of oil from Atrush sold to the KRG during the year. The Company held a 20.1% interest in Atrush up to May 30, 2019 when the Company increased its interest to 27.6%. Production from the Atrush field was delivered to the KRG's Feeder Pipeline at the Atrush block boundary for onward export through Ceyhan, Turkey. Gross exported oil volumes from Atrush in the year 2019 were 11.8MMbbls (2018: 8.1MMbbls) and the Company's entitlement share was approximately 1.5MMbbls (2018: 1.3MMbbls) which were sold with an average netback price of $48.48 per barrel (2018: $54.52). Export prices are based on Dated Brent oil price with a discount for estimated oil quality adjustments and all local and international transportation costs. ShaMaran's oil entitlement share is based on export prices and on PSC terms covering allocation of profit oil, cost oil and capacity building bonuses owed to the KRG. The Company's entitlement share was significantly inflated in the year 2018 due to a sharing arrangement with TAQA, which provided the Company with a priority share of the initial exploration cost oil.

Refer also to Notes 6 and 16.

8. Cost of goods sold

Lifting costs are comprised of the Company's share of expenses related to the production of oil from the Atrush Block including operation and maintenance of wells and production facilities, insurance, and the operator's related support costs. The significant increase in 2019 lifting costs over the amount in 2018 was due to higher production volumes, a higher working interest in Atrush and increased costs for well workovers and salt related issues. A key determinant to the variance between 2018 and 2019 is there were no incremental lifting costs in 2018 related to the priority share of the initial exploration cost oil revenues. Other costs of production include the Company's share of production bonuses paid to the KRG, heavy oil extended well test operating costs and its share of other costs prescribed under the Atrush PSC.

Oil and gas assets are depleted using the unit of production method based on proved and probable reserves using estimated future prices and costs and accounting for future development expenditures necessary to bring those reserves into production.

Refer also to Note 6 and 7.

9. General and administrative expense

General and administrative expenses principally include the Company's cost of technical and administrative personnel, travel, office, business development and stock exchange listing and regulatory related costs. The higher general and administrative expense incurred in the quarter and the year 2019 compared to the same periods of 2018 was principally due to higher costs related to value-added initiatives to streamline and strengthen the Company's core business technical capacity, corporate structure and business development function resulting in added management and consulting fees as well as travel. The Company also incurred additional costs related to strengthening number of staff in the Company's Swiss service office, benefits relating to the Company's short-term incentive plan, and one-off costs incurred in relocating the Swiss office. The Company notes that approximately $1.4 million of the increase in costs in 2019 related to a change in executive management, office relocation and one-off capacity building initiatives.

Expressed in thousands of United States dollars

10. Finance income

	For the year ended December 31, 2019	2018
Interest on deposits	375	720
Interest on Atrush Development Cost Loan	242	836
Interest on Atrush Feeder Pipeline Cost Loan	173	535
Total finance income	**790**	**2,091**

Refer to Note 16 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, investments and restricted cash held in interest bearing term deposits.

11. Finance cost

	For the year ended December 31, 2019	2018
Interest charges on bonds at coupon rate	23,417	25,428
Re-measurement of bond debt	2,131	-
Amortization of bond transaction costs	848	1,087
Call premium on early retirement of bonds	-	1,427
Total borrowing costs	**26,396**	**27,942**
Foreign exchange loss	55	26
Lease – interest expense	2	-
Unwinding discount on decommissioning provision	(14)	5
Total finance costs before borrowing costs capitalized	**26,439**	**27,973**
Borrowing costs capitalized	(1,050)	(4,859)
Finance cost	**25,389**	**23,114**

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

Amortisation of bond transaction costs in the year ended December 31, 2019, includes a loss of $671 thousand related to the partial settlement of debt in the period.

Borrowing costs directly attributable to the acquisition and preparation of Atrush development assets for their intended use have been capitalised together with the related Atrush oil and gas assets. All other borrowing costs are recognised in profit or loss in the period in which they are incurred. The capitalisation of borrowing costs has ceased for a significant number of development projects, which have been completed for their intended use, leading to less borrowing costs being capitalised.

Refer also to Notes 15, 19 and 20.

Expressed in thousands of United States dollars

12. Taxation

(a) Income tax expense

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

	For the year ended December 31, 2019	2018
(Loss) / Income from continuing operations before income tax	(13,296)	1,933
Corporate income tax rate	27.0%	27.0%
Computed (recovery) / income tax expense	(3,590)	522
Increase / (decrease) resulting from:		
Non-deductible losses on foreign operations	28,803	-
Other expense	300	25
Effect of changes in foreign exchange rates	256	(57)
Non-deductible compensation expense	255	-
Non-taxable foreign exchange gain	9	3
Effect of changes in tax rates	-	(243)
Share issuance costs charged to share capital	(41)	-
Foreign tax rate differences	(1,318)	(1,213)
Change in deferred tax assets	(24,573)	1,027
Income tax expense	**101**	**64**

The Company's income tax expense relates to income taxes on service income generated in Switzerland and is calculated at the effective tax rate of 24% prevailing in this jurisdiction.

(b) Tax losses carried forward

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

	For the year ended December 31, 2019	2018
Canadian losses from operations	65,218	36,310
Canadian exploration expenses	2,427	2,486
Canadian unamortised share issue costs	492	829
Dutch losses from operations	-	161,288
U.S. Federal losses from operations	173,327	173,320
U.S. Federal tax basis in excess of carrying values of properties	3,654	3,654
Total tax losses carried forward	**245,118**	**377,887**

The Canadian losses from operations may be used to offset future Canadian taxable income and will expire over the period from 2026 to 2039. 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 2020 to 2022. The Dutch tax losses ceased to exist during 2019 due to the windup of ShaMaran Petroleum Holdings Coöperatief U.A. as part of the Company's initiative to eliminate redundancies in its legal structure. The U.S. Federal losses are available to offset future taxable income in the United States through 2032.

The Company has not recognised any deferred tax assets amounting to approximately $66 million (2018: $91 million) as it is not probable that these amounts will be realised.

Expressed in thousands of United States dollars

13. Property, plant and equipment

	Oil and gas assets	Computer equipment	Furniture and office equipment	Total
At January 1, 2018				
Cost	192,683	266	156	193,105
Accumulated depletion and depreciation	(7,765)	(263)	(156)	(8,184)
Net book value	**184,918**	**3**	**-**	**184,921**
For the year ended December 31, 2018				
Opening net book value	184,918	3	-	184,921
Additions	17,356	11	1	17,368
Reclass from intangible E&E asset	21,794	-	-	21,794
Depletion and depreciation expense	(28,171)	(4)	-	(28,175)
Net book value	**195,897**	**10**	**1**	**195,908**
At December 31, 2018				
Cost	231,833	274	156	232,263
Accumulated depletion and depreciation	(35,936)	(264)	(155)	(36,355)
Net book value	**195,897**	**10**	**1**	**195,908**
For the year ended December 31, 2019				
Opening net book value	195,897	10	1	195,908
Additions	25,971	43	181	26,195
Acquisition of additional Atrush interest	11,549	-	-	11,549
Depletion and depreciation expense	(25,722)	(10)	(17)	(25,749)
Net book value	**207,695**	**43**	**165**	**207,903**
At December 31, 2019				
Cost	269,353	317	337	270,007
Accumulated depletion and depreciation	(61,658)	(274)	(172)	(62,104)
Net book value	**207,695**	**43**	**165**	**207,903**

The net book value of property, plant and equipment ("PP&E") is principally comprised of development costs related to the Company's share of Atrush PSC proved and probable reserves as estimated by McDaniel, less the cumulative depletion costs corresponding to commercial production. During the year 2019 movements in PP&E were comprised of additions of $37.7 million (2018: $17.4 million), which included the $11.5 million of additional interest in Atrush acquired from MOKDV and measured at fair value and capitalized borrowing costs of $1.0 million (2018: $5.0 million) net of depletion and depreciation of $25.7 million (2018: $28.2 million) which resulted in a net increase to PP&E assets of $12.0 million.

Refer also to Note 6.

Expressed in thousands of United States dollars

14. Intangible assets

	Exploration and evaluation assets	Other intangible assets	Total
At January 1, 2018			
Cost	89,113	307	89,420
Accumulated amortisation	-	(301)	(301)
Net book value	**89,113**	**6**	**89,119**
For the year ended December 31, 2018			
Opening net book value	89,113	6	89,119
Additions	506	3	509
Reclass to PP&E	(21,794)	-	(21,794)
Amortisation expense	-	(5)	(5)
Net book value	**67,825**	**4**	**67,829**
At December 31, 2018			
Cost	67,825	307	68,132
Accumulated amortisation	-	(303)	(303)
Net book value	**67,825**	**4**	**67,829**
For the year ended December 31, 2019			
Opening net book value	67,825	4	67,829
(Credits)/additions	(209)	39	(170)
Amortisation expense	-	(10)	(10)
Net book value	**67,616**	**33**	**67,649**
At December 31, 2019			
Cost	67,616	346	67,962
Accumulated amortisation	-	(313)	(313)
Net book value	**67,616**	**33**	**67,649**

The net book value of intangible assets is principally comprised of exploration and evaluation ("E&E") assets which represent the Atrush Block exploration and appraisal costs related to the Company's share of Atrush Block contingent resources as estimated by McDaniel.

15. Right-of-use asset and lease liability

The right-of-use asset relates to the three-year office lease for the Company's technical and administrative services office in Vésenaz, Switzerland. At December 31, 2019, the balance sheet shows a value of $309 thousand for the right-of-use asset, $384 thousand initial value less $75 thousand depreciation, and a lease liability value of $303 thousand, $132 thousand as a current liability and $171 thousand as a non-current liability. The income statement in the year 2019, includes the depreciation charge of the right-of-use asset of $75 thousand plus an interest expense of $2 thousand included in the finance cost. For the year 2018 there were no leases.

Expressed in thousands of United States dollars

16. Loans and receivables

The Company was owed amounts for its entitlement share of oil deliveries made to the KRG during the last five months of the year (2018: last three months of the year). The Atrush Exploration Costs receivables, which relate to a share of the KRG's development costs carried by ShaMaran prior to the year 2016 and deemed to be exploration costs under the Atrush PSC, are repaid through an accelerated petroleum cost recovery agreement made in 2016 with the KRG. Repayment in full of both the Atrush Development Cost Loan and the Atrush Feeder Pipeline Cost Loan was completed in October 2019, which were repaid with interest at 7% per annum. At year end the Company had loans and receivables outstanding as follows:

	For the year ended December 31,	
	2019	2018
Atrush Exploration Costs receivable	41,782	34,898
Accounts receivable on Atrush oil sales	35,535	14,531
Atrush Feeder Pipeline Cost Loan	-	4,718
Atrush Development Cost Loan	-	7,136
Total loans and receivables	**77,317**	**61,283**
Current portion	55,931	36,099
Non-current portion	21,386	25,184

In the year 2019 the Company received principal plus interest payments totalling $9.8 million for Atrush Development Cost Loan and $6.1 million for the Atrush Feeder Pipeline Cost Loan, as well as $5.7 million of Atrush Exploration Cost receivables. The Company has assessed the need for an impairment and determined none to be necessary. Therefore no impairments have been recorded.

In the year 2020 up to when these financial statements were approved the Company received $14.1 million in total payments for loans and receivables balances outstanding at December 31, 2019, comprised of $12 million in total payments for its entitlement share of oil sales for the months of August and September 2019, and $2.1 million in reimbursements of the Atrush Exploration Costs receivable. The Atrush Development Cost Loan and the Atrush Feeder Pipeline Cost Loan have been fully repaid in October 2019.

Refer also to Notes 6, 7 and 10.

17. Other current assets

	For the year ended December 31,	
	2019	2018
Prepaid expenses	229	176
Other receivables	78	110
Deposit on purchase of additional Atrush interest	-	2,000
Total other current assets	**307**	**2,286**

Refer also to Note 6.

18. Accounts payable and accrued expenses

	For the year ended December 31,	
	2019	2018
Payables to joint operations partner	6,828	2,734
Accrued expenses	1,511	859
Trade payables	663	282
Total accounts payable and accrued expenses	**9,002**	**3,875**

Refer also to Note 6.

Expressed in thousands of United States dollars

19. Borrowings

The ShaMaran bonds have a five-year maturity without amortization and carry 12% fixed semi-annual coupon and mature on July 5, 2023. On January 5, 2019 the Company issued the first semi-annual interest payment to ShaMaran bondholders in the amount of $14.4 million. On February 1, 2019, bondholders approved of certain amendments to the ShaMaran Bonds agreement principally as follows:

- the repayment of $50 million of ShaMaran Bonds plus accrued interest;
- the Company will reduce the aggregate outstanding amount of the Bond Issue to a maximum of $175 million on or before July 2020;
- the release to the Company of $14.4 million of Company cash from a debt service retention account ("DSRA") pledged to the bondholders as security for the Company's obligations under the ShaMaran bonds;
- the Liquidity Guarantee remains in force until such time as the Company funds the DSRA with an amount equal to 12 months of bond coupon interest.

On February 8, 2019 the Company repaid $50 million of ShaMaran Bonds and $550 thousand of related accrued interest. On July 5, 2019 the Company issued the second semi-annual interest payment to ShaMaran bondholders in the amount of $11.4 million. The Company paid a total of $26.4 million in cash for interest payments to the bondholders in 2019 which was comprised of the January 5, 2019 coupon interest payment of $14.4 million on the 240 million of bonds outstanding at that time plus the $550 thousand and $11.4 million payments mentioned in the preceding sentence. At December 31, 2019, there were $190 million of ShaMaran Bonds outstanding.

Nemesia S.à.r.l. ("Nemesia"), a company controlled by a trust settled by the estate of the late Adolf H. Lundin, agreed to guarantee the Company's obligations under the ShaMaran Bonds agreement (the "Liquidity Guarantee") up to an amount of $22.8 million. In exchange for providing the Liquidity Guarantee the Company issued Nemesia 2,000,000 common shares of ShaMaran on January 23, 2019. The fair value of the shares issued of $150 thousand has been accounted for as bond transaction costs and is being amortised over the term of the bonds. In case of a draw down on the Liquidity Guarantee, the Company is required to issue to Nemesia a further 50,000 shares of ShaMaran for each $500 thousand drawn down per month until the drawn amount is repaid.

The movements in borrowings are explained as follows:

	For the year ended December 31,	
	2019	2018
Opening balance	**250,797**	**188,491**
Interest charges at coupon rate	23,417	25,428
Re-measurement of bond debt	2,131	-
Amortization of bond transaction costs	848	1,087
Bond issued – net of transaction costs	-	236,361
Call premiums on early retirement of bonds	-	1,427
Bond transaction costs	(150)	-
Payments to Bondholders – interest and call premiums	(26,350)	(15,575)
Bonds retired	(50,000)	(186,422)
Ending balance	**200,693**	**250,797**
Current portion: borrowings plus accrued bond interest expense	26,147	14,080
Non-current portion: borrowings	174,546	236,717

The release of the $50 million from the Marathon Pledged Account plus the release on March 8, 2019 from the DSRA of $14.4 million resulted in a net decrease in restricted cash of $67.8 million in the year ending December 31,2019.

Expressed in thousands of United States dollars

The remaining contractual obligations under the amended ShaMaran Bonds, which are comprised of the repayment of principal and interest expense based on undiscounted cash flows at payment date and are based on the current $190 million of bonds outstanding until July 2020 when ShaMaran Bonds outstanding will be reduced to $175 million following the completion by the Company of its obligation to pay down $15 million of bonds, identified as a current liability on the balance sheet, are as follows:

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

Refer also to Notes 11 and 21.

20. Provisions

The provision relates to the Company's share of future decommissioning and site restoration costs in respect of the Company's 27.6% interest in the Atrush Block and assumes these works will commence in the year 2032. The estimated costs have been discounted to net present value using a Bank of Canada long term bond yield rate of 1.76% (2018 year-end: 2.18%) and an inflation rate of 2.285% (2018 year-end: 1.91%).

	For the year ended December 31,	
	2019	2018
Opening balance	9,559	9,427
Changes in estimates and obligations incurred	4,830	290
Changes in discount and inflation rates	1,340	(163)
Unwinding discount on decommissioning provision	(14)	5
Total decommissioning and site restoration provisions	**15,715**	**9,559**

The changes in estimates and obligations incurred in 2019 includes an increase of $4 million due to the acquisition of an additional 7.5% participating interest in the Atrush block.

Refer to Note 6.

21. Share capital

The Company is authorised to issue an unlimited number of common shares with no par value. The Company's issued share capital is as follows:

	Number of shares	Share capital
At January 1, 2018	**2,158,631,534**	**637,538**
At December 31, 2018	**2,158,631,534**	**637,538**
Bond transaction cost	2,000,000	150
At December31, 2019	**2,160,631,534**	**637,688**

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

Refer also to Notes 11 and 19.

Expressed in thousands of United States dollars

Earnings per share

The earnings per share amounts were as follows:

	For the year ended December 31, 2019	2018
Net income / (loss), in dollars	(13,397,000)	1,869,000
Weighted average number of shares outstanding during the year	2,160,505,507	2,158,631,534
Weighted average diluted number of shares outstanding during the year	2,222,115,719	2,183,631,534
Basic and diluted income / (loss(per share, in dollars	(0.01)	0.00

22. Share based payments expense

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

On August 12, 2019, the Company granted a total of 15,070,000 incentive stock options and 11,660,000 RSUs to certain senior officers and other eligible persons of the Company. The options vest over a period of two years and are exercisable over a period of five years at a strike price of CAD 0.08 per share. On May 15, 2019, a grant of 10,000,000 share options was awarded to ShaMaran's Chief Executive Officer. These two option grants resulted in total charges to the Statement of Comprehensive Income of $653 thousand for the year (2018: nil). The RSU's vest over a period of three years and are redeemable in shares of the company over a period of five years at a price of CAD 0.08 per share. The RSU grant resulted in total charges to the Statement of Comprehensive Income of $92 thousand for the year (2018: nil).

On May 30, 2019, the Company granted a total of 3,600,265 of deferred share units ("DSU") to non-employee directors. The fair value of the DSU's are fully expensed in the period granted, based on the grant date share price of CAD 0.075, at each quarter end the carrying value of the DSU liability is revalued based on the change in the share price, any gains or losses are charged to the Income Statement. At the end of the year this resulted in an overall credit of $1 thousand based on a share price of CAD 0.07 at December 31,2019. During the year 720,053 DSUs were redeemed following the end of service of one of the Company's directors. The DSU grant resulted in total charges to the Statement of Comprehensive Income of $199 thousand for the year (2018: nil).

The carrying amount of the DSU liability at December 31, 2019, is $155 thousand. The DSUs may not be redeemed until a minimum period of three months has passed following the end of service as a director of the Company and will be settled in cash.

Expressed in thousands of United States dollars

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

	Number of share options outstanding	Weighted average exercise price CAD
At January 1, 2018	**28,165,000**	**0.13**
Expired in the year 2018	(3,165,000)	0.28
At December 31, 2018	**25,000,000**	**0.12**
Granted in the year 2019	25,070,000	0.08
Expired in the year 2019	(3,000,000)	0.12
At December 31, 2019	**47,070,000**	**0.10**
Share options exercisable:		
At December 31, 2018	25,000,000	0.12
At December 31, 2019	30,356,662	0.10
Weighted average remaining contractual life of options:		
At December 31, 2018	1.05 years	
At December 31, 2019	1.28 years	

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.

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.

There were 25,070,000 options granted during the year 2019 (2018: nil) and 3,000,000 options expired (2018: 3,165,000). Share based payments expense for options for the year ended December 31, 2019 was $653 thousand (2018: $nil). There were no grants of share units at the balance sheet date. On January 19, 2020, 22,000,000 share options expired.

Refer also to Note 28.

Expressed in thousands of United States dollars

23. Pension liability

The Company operates a pension plan in Switzerland that is managed through a private pension plan and accounts for its pension plan in accordance with IAS 19. The amount recognized in the balance sheet associated with the Swiss pension plan is as follows:

	For the year ended December 31,	
	2019	2018
Present value of defined benefit obligation	2,352	7,376
Fair value of plan assets	(1,383)	(6,046)
Pension liability	**969**	**1,330**

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

	For the year ended December 31,	
	2019	2018
Opening balance	7,376	8,082
Current service cost	169	172
Ordinary contributions paid by employees	102	106
Interest expense on defined benefit obligation	62	56
Foreign exchange loss / (gain)	26	(67)
Administration costs	4	4
Additional contributions paid by employees	-	583
Past service cost	-	(111)
Actuarial gain on defined benefit obligation	(420)	(315)
Benefits paid from plan assets	(4,967)	(1,134)
Defined benefit obligation, ending balance	**2,352**	**7,376**

The weighted average duration of the defined benefit obligation is 19.81 years. There is no maturity profile since the average remaining life before active employees reach final age according to the plan is 10.69 years.

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

	For the year ended December 31,	
	2019	2018
Opening balance	6,046	6,301
Ordinary contributions paid by employer	153	159
Ordinary contributions paid by employees	102	106
Interest income on plan assets	51	44
Foreign exchange gain / (loss)	9	(55)
Additional contributions paid by employees	-	583
Return on plan assets excluding interest income	(11)	42
Benefits paid from plan assets	(4,967)	(1,134)
Fair value of plan assets, ending balance	**1,383**	**6,046**

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.

Expressed in thousands of United States dollars

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

	For the year ended December 31,	
	2019	2018
Current service cost	169	172
Interest expense on defined benefit obligation	62	56
Administration costs	4	4
Past service cost	-	(111)
Interest income on plan assets	(51)	(44)
Total expense recognised	**184**	**77**

The expense associated with the Company's pension plan of $184 thousand was included within general and administrative expenses. The Company also recognised in other comprehensive income a $409 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:

	For the year ended December 31,	
	2019	2018
Discount rate	0.30%	0.85%
Inflation rate	1.00%	1.00%
Future salary increases	1.00%	1.00%
Future pension increases	0.00%	0.00%
Retirement ages, male ('M') and female ('F')	M65/F64	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 expected average increase in salaries to be 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 2020 are expected to total $0.2 million.

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

	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	0.50%	decrease by 9.3%	increase by 10.8%
Salary growth rate	0.50%	increase by 0.8%	decrease by 0.8%
Life expectancy	1 year	increase by 1.8%	decrease by 1.9%

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. There have been no changes to the sensitivity analysis method this year.

Expressed in thousands of United States dollars

24. Financial instruments

Financial assets

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

	Carrying and fair values [1]	
	At December 31, 2019	At December 31, 2018
Loans and receivables [2]	35,535	26,385
Cash and cash equivalents, unrestricted [2]	15,480	24,586
Other receivables [2]	78	110
Cash and cash equivalents, restricted [2]	50	67,884
Total financial assets	**51,143**	**118,965**

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

Financial liabilities

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

	Fair value hierarchy [4]	Carrying values	
		At December 31, 2019	At December 31, 2018
Borrowings [3]	Level 2	189,546	236,717
Accrued interest on bonds		11,147	14,080
Accounts payable and accrued expenses [2]		9,002	3,875
Current tax liabilities		42	16
Total financial liabilities		**209,737**	**254,688**

Financial liabilities are initially recognised at the fair value of the amount expected to be paid and are subsequently measured at amortised cost using the effective interest rate method.

[1] The carrying amount of the Company's financial assets approximate their fair values at the balance sheet dates.

[2] No valuation techniques have been applied to establish the fair value of these financial instruments as they are either cash and cash equivalents, correspond to payment terms fixed by contract or, due to the short-term nature, are readily convertible to or settled with cash and cash equivalents.

[3] The fair value of the Company's borrowings at the balance sheet date was $190 million (December 31, 2018: $240 million). The fair value has been determined based on quoted market prices of similar bonds held by similar companies within the industry.

[4] *Fair value measurements*

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

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

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 $200.7 million as at December 31, 2019 (2018: $250.8 million). Refer also to Note 19.

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 4(d).

The table below summarises the effect that a change in the Dated Brent oil price would have had on the net loss during the year ended December 31, 2019:

Net loss reported in the financial statements	(13,397)	(13,397)
Possible shift - (decrease) / increase in Dated Brent oil price in %	(10%)	10%
Total (increase) / decrease in the net loss	**(9,073)**	**9,073**

The Company does not hedge against commodity price risk.

Foreign currency risk

The substantial portion of the Company's operations require purchases denominated in USD, which is the functional and reporting currency of the Company and the currency in which the Company maintains the substantial portion of its cash and cash equivalents. Certain of its operations require the Company to make purchases denominated in foreign currencies, which are currencies other than USD and correspond to the various countries in which the Company conducts its business, most notably, Swiss Francs ("CHF") and Canadian dollars ("CAD"). As a result, the Company holds some cash and cash equivalents in foreign currencies and is therefore exposed to foreign currency risk due to exchange rate fluctuations between the foreign currencies and the USD. The Company considers its foreign currency risk is limited because it holds relatively insignificant amounts of foreign currencies at any point in time and since its volume of transactions in foreign currencies is currently relatively low. The Company has elected not to hedge its exposure to the risk of changes in foreign currency exchange rates.

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

	Assets December 31,		Liabilities December 31,		Equity December 31,	
	2019	**2018**	**2019**	**2018**	**2019**	**2018**
Canadian dollars in thousands ("CAD 000")	71	31	325	258	224,126	223,146
Swiss francs in thousands ("CHF 000")	353	280	668	133	-	-

Expressed in thousands of United States dollars

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, liabilities and equity 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 based on the CHF and CAD assets, liabilities and equity 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		Equity	
	2019	**2018**	**2019**	**2018**	**2019**	**2018**
Statement of comprehensive income - CAD	-	-	(2)	(1)	(1,323)	(1,209)
Statement of comprehensive income - CHF	4	3	(7)	(1)	-	-

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 Company is highly leveraged though financing at the project level, for the continuation of Atrush project, and at the corporate level due to the $190 million of bond which have been issued since July 2018. 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, loans and receivables and other receivables.

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

Expressed in thousands of United States dollars

Liquidity risk

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

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

The maturity profile of the Company's financial liabilities is indicated by their classification in the consolidated balance sheet as "current" or "non-current".

25. Commitments and contingencies

As at December 31, 2019 the outstanding commitments of the Company were as follows:

	For the year ended December 31,				
	2020	**2021**	**2022**	**Thereafter**	**Total**
Atrush Block development and PSC	65,246	166	166	1,656	67,234
Office and other	139	124	51	-	314
Total commitments	**65,385**	**290**	**217**	**1,656**	**67,548**

Amounts relating to Atrush Block development represent the Company's unfunded paying interest share of the approved 2020 work program and other obligations under the Atrush PSC.

Under the terms of the Atrush PSC the Company will owe a share of production bonuses payable to the KRG when cumulative oil production from Atrush reaches production milestones defined in the Atrush PSC as follows: $13.3 million at 25 million barrels (ShaMaran share: $3.67 million); and $23.3 million at 50 million barrels (ShaMaran share: $6.43 million). The production bonuses represent an outflow of Company resources as an economic benefit to the KRG, rather than as an exchange for a service, and are therefore accounted for in accordance with IFRIC 21 Levies which requires that the obligation be recognized on the date at which the production milestone is reached. Cumulative production from Atrush reached 25 million barrels early February 2020.

Refer also to Notes 19, 26 and 28.

Expressed in thousands of United States dollars

26. Interests in joint operations and other entities

Interests in joint operations - Atrush Block Production Sharing Contract

ShaMaran holds a 27.6% direct interest in the Atrush PSC through GEP. TAQA Atrush B.V. is the Operator of the Atrush Block with a 47.4% direct interest and the KRG holds a 25% direct interest. TAQA, the KRG and GEP together are "the Contractors" to the Atrush PSC.

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 6, 16 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 2019	31 Dec 2018
ShaMaran Petroleum Holdings Coöperatief U.A.	Oil exploration and production	The Netherlands	0	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	100	100

During the year 2019 ShaMaran Petroleum Holdings Coöperatief U.A. was liquidated in conjunction with the Company's initiative to eliminate redundancies in its legal structure.

27. Related party transactions

Transactions with corporate entities

	Purchase of services During the year		Amounts owing at the balance sheet dates	
	2019	2018	2019	2018
Namdo Management Services Ltd.	50	34	-	-
Bennett-Jones	-	51	-	-
Lundin Petroleum AB	-	104	-	-
Total	**50**	**189**	**-**	**-**

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

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

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

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

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

Refer also to Note 19.

Expressed in thousands of United States dollars

Key management compensation

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

	For the year ended December 31,	
	2019	2018
Management's salaries	845	881
Management's short-term benefits	1,227	464
Management's share-based payments	568	-
Directors' fees	282	166
Directors' share-based payments	199	-
Management's pension benefits	68	121
Total	**3,189**	**1,632**

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'*.

DIRECTORS

Dr. Adel Chaouch
Director, President and Chief Executive Officer
Geneva, Switzerland

Chris Bruijnzeels
Director, Chairman
Amsterdam, Netherlands

Keith C.Hill
Director
Florida, USA

Terry L. Allen
Director
Calgary, Canada

Michael Ebsary
Director
Geneva, Switzerland

William Lundin
Director
Calgary, Canada

OFFICERS

Dr. Adel Chaouch
Director, President and Chief Executive Officer
Geneva, Switzerland

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

Kathy Love
Assistant Corporate Secretary
Vancouver, Canada

CORPORATE DEVELOPMENT

Sophia Shane
Vancouver, Canada

INVESTOR RELATIONS

Robert Eriksson
Stockholm, Sweden

CORPORATE OFFICE

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British Columbia V6C 3E8 Canada
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OPERATIONS and ADMINISTRATIVE OFFICE

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REGISTERED AND RECORDS OFFICE

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Vancouver, British Columbia
V6C 2X8 Canada

INDEPENDENT AUDITORS

PricewaterhouseCoopers SA
Geneva, Switzerland

TRANSFER AGENT

Computershare Trust Company of Canada
Vancouver, Canada

STOCK EXCHANGE LISTINGS

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

ShaMaran Petroleum Corp.