

# Shamaran Petroleum Corp. Announces Financial and Operating Results for the Nine Months Ended September 30, 2018

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VANCOUVER, Nov. 7, 2018 - [ShaMaran Petroleum Corp.](#) ("ShaMaran" or the "Company") (TSX VENTURE: SNM) (O pleased to announce its financial and operating results for the nine months ended September 30, 2018. Unless otherwise currency amounts indicated as "\$" in this news release are expressed in thousands of United States dollars. View PDF

## HIGHLIGHTS

- ShaMaran entered agreement with Marathon Oil KDV BV to acquire their 15% interest in Atrush.
- Company issued \$240 million in new 5-year bonds in July and bonds due to mature in November 2018 were retired.
- Revenues of \$55.1 million with strong operational cash flows in first nine months.
- Average Atrush production of 20,350 bopd in first nine months of 2018 with \$7.22/barrel average lifting cost.
- Production in Q3 was 21,700 bopd, compared to 15,800 bopd in Q2; however, revenue from oil sales in Q3 was \$15.3 million down from \$15.3 million in Q2. The exceptional allocation<sup>1</sup> of TAQA's exploration cost oil entitlement under the Atrush joint operating agreement was completed in Q2, which resulted in relatively higher entitlement oil in the first nine months of 2018.
- Successfully resolved salt related production issues.
- October production was 26,800 bopd on average.
- CK-7 completed with low drawdown flow test of 7,040 bopd. Brought on line late July.
- CK-10 drilled and completed with low drawdown flow test of 4,400 bopd. Brought on line late July.
- CK-9 water disposal well is on track to achieve its objectives but is delayed due to slower than anticipated drilling operations.
- Started process to procure two Early Production Facilities, each with 10,000 bopd capacity, to be installed in 2019.
- 25% increase in 2P reserves announced in February.

Chris Bruijnzeels, President and CEO of ShaMaran, commented "I am pleased to see Atrush production steadily increasing that we have addressed salt production related issues. We have more well capacity than we can produce through our facilities. We have therefore started to investigate the possibility to increase our production capacity to 50,000 bopd by procuring two Early Production Facilities. Completing the Marathon acquisition has proven to be more time consuming than initially envisaged and we are working towards concluding the transaction in Q4 2018."

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<sup>1</sup> The Company's entitlement share includes an adjustment for the exploration cost sharing arrangement between TAQA and GEP. TAQA and GEP have 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 receives the initial \$10.8 million and GEP receives the next \$39.1 million, thereafter cost oil revenues for these two parties is determined by their relative participating interests in the Atrush PSC. The Company's entitlement share of oil sold up to June 30, 2018 reflects a full recovery of the \$39.1 million.

## Operations

- ShaMaran entered into an agreement on June 4, 2018 to acquire a further 15% interest in Atrush from Marathon ("Marathon") for \$60 million before closing adjustments ("the Marathon Acquisition").
- Atrush production in October was 26,800 bopd on average coming from five wells: AT-2, CK-5, CK-7, CK-8 and CK-9. Production is planned to continue to increase through the fourth quarter.
- Atrush oil production in three and nine months ended September 30, 2018 was 21,700 bopd and 20,350 bopd which compares to 15,800 reported in the second quarter of 2018. These increases are due to a recovery from the production capacity restrictions caused by unexpectedly high concentrations of salts flowed back by two wells from March 2018. Production in Q3 was negatively influenced by higher than expected export pipeline downtime in August and further out activities in September. Average lifting cost per barrel in the third quarter was \$7.92 and \$7.22 in the first nine months.
- CK-7 well was completed in Q2 2018 and tested 27.5 API oil at 7,040 bopd at only 14 psi drawdown. CK-7 came on line on July 23, 2018.
- CK-10 well was drilled on time and within budget during May and June 2018, and flow tested approximately 4,400 bopd at a low drawdown. CK-10 came on line on July 25, 2018.
- CK-9 water disposal well was spudded on July 20, 2018 with planned well depth of 3,000 metres. The main objective is to reach target deep horizons below the oil reservoir to allow for disposal of produced water that is expected as production increases. The well is on track to achieve its objectives but is delayed due to slower than anticipated drilling and coring operations.
- Progress continues towards the extended well testing of the AT-3 well, planned for the fourth quarter. This test aims at further progress development planning for the significant volumes of heavy oil currently classified as contingent resources.

## Financial and Corporate

- Company issued new \$240 million senior unsecured bonds on July 5, 2018 with 5-year term and 12% semi-annual interest and bonds due to mature in November 2018 were retired.
- Atrush related cash inflows in the nine months ended September 30, 2018:
  - \$55.6 million for entitlement share of Atrush PSC profit oil and cost oil for October 2017 through June 2018. A further \$3.8 million has been received in October relating to July 2018 oil sales.
  - \$1.7 million of Atrush Exploration Costs receivable<sup>2</sup> on October 2017 through June 2018 oil sales. A further \$1.7 million was received in October relating to July 2018 oil sales.
  - \$11.7 million in payments of principal plus interest on the Atrush Development Cost Loan and the Atrush Facility Cost loans for invoices from January to June 2018. A further \$1.3 million was received in October relating to the 2018 KRG Loan invoice.
- A sales agreement was concluded in February 2018 between Atrush co-venturers and the KRG for the sale of Atrush oil. KRG buys oil exported from the Atrush field by pipeline at the Atrush block boundary based upon the Dated Brent price minus \$15.73 for quality discount and all local and international transportation costs.
- On February 15, 2018 the Company reported estimated reserves and contingent resources for the Atrush field as at September 30, 2017. Total Field Proven plus Probable ("2P") Reserves on a property gross basis for Atrush increased from 80.7 MMbbl reported as at December 31, 2016 to 102.7 MMbbl which, when 2017 Atrush production of 3.4 MMbbl is included, represents an increase of 25 percent. Total Field Unrisked Best Estimate Contingent Oil Resources ("2C")<sup>3</sup> on a property gross basis for Atrush was approximately the same as the 2016 estimate at 296 MMbbl. Total discovered oil in place in the Atrush field is a low estimate of 1.5 billion barrels, a best estimate of 2.1 billion barrels and a high estimate of 2.9 billion barrels.

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<sup>2</sup>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.

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

## OUTLOOK

### Operations

- Production guidance for the remainder of 2018 is 25,000-30,000 bopd. Previous guidance for 2018 lifting costs of has been increased to \$7.60/bbl principally due to additional costs related to addressing higher than expected cost of salts in Atrush production and lower than estimated average production for the year.
- Capital expenditure guidance has been lowered from previous estimate of \$17.0 million to \$14.2 million (20.1% w interest in Atrush), principally due to lower than planned 2018 drilling and testing costs. Remaining planned capital includes:
  - complete installation of additional insulation and heating on process vessels. This work aims to minimise any weather-related process capacity restrictions due to an inability to remove H2S from crude during the winter
  - continuing the program to identify debottlenecking opportunities to further increase production capacity beyond bopd;
  - completing drilling, testing and completion activities at CK-9 water disposal well; and
  - conducting extended testing of the AT-3 well located on the east side of Atrush and which is outside the 2P of Atrush. This involves the installation of temporary production facilities near the Chamanke&ndash;C well delivery by truck of oil to the main Phase 1 Production Facilities.
- Following the results of the CK-7 and CK-10 wells, the extended well testing in AT-3 and sustained production from 1 Production Facilities the Company expects to further assess the significant undeveloped Atrush resource base potential to grow organically to approximately 100,000 bopd production. To this end, the process has been initiated two Early Production Facilities, each with 10,000 bopd capacity, to extend overall Atrush oil processing capacity to bopd.

### Financing and corporate

- A cash payment is due to Marathon upon close of the Marathon Acquisition for \$60 million less the \$2 million deposit all other final closing adjustments which will include net Atrush cash flows received by Marathon after January 1, effective date of the acquisition
- Two cash payments of \$14.4 million each to be made by the Company into the Debt Service Retention Account. payments are due on December 31, 2018 and June 30, 2019. Refer to the discussion under "Borrowings" section
- The first semi-annual coupon interest payment of \$14.4 million under the Company's \$240 million bonds is due January 2019.

## FINANCIAL RESULTS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2018

Atrush production operations and work on the Atrush development program continued throughout the first nine months

### Financial Results

The net income was primarily driven by the gross margin on Atrush oil sales and interest income on Atrush cost loans and was reduced by general and administrative expenses and net finance cost, the substantial portion of which were borne by costs on the Company's Bonds.

## Condensed Interim Statement of Comprehensive Income

(Unaudited, expressed in thousands of United States Dollars)

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Revenues	13,240	3,782	55,069	3,782
Cost of goods sold:				
Lifting costs	(3,180)	(2,302)	(8,069)	(2,302)
Depletion	(3,726)	(2,281)	(17,912)	(2,281)
Other costs of production	(39)	-	(122)	-
Gross margin on oil sales	6,295	(801)	28,966	(801)
Share based payments expense	-	-	-	(11)
Depreciation and amortisation expense	(1)	(8)	(7)	(26)
General and administrative expense	(785)	(1,637)	(2,651)	(3,545)
Income / (loss) from operating activities	5,509	(2,446)	26,308	(4,383)
Finance income	369	525	1,196	1,288
Finance cost	(8,586)	(3,436)	(15,772)	(6,393)
Net finance cost	(8,217)	(2,911)	(14,576)	(5,105)
(Loss) / income before income tax expense	(2,708)	(5,357)	11,732	(9,488)
Income tax expense	(12)	(36)	(39)	(71)
(Loss) / income for the period	(2,720)	(5,393)	11,693	(9,559)
Other comprehensive income				
Items that may be reclassified to profit or loss:				
Currency translation differences	3	1	19	35
Actuarial (loss) / gain on defined pension plan	(1)	-	196	-
Total other comprehensive income	2	1	215	35
Total comprehensive (loss) / income for the period	(2,718)	(5,392)	11,908	(9,524)

## Condensed Interim Consolidated Balance Sheet

(Unaudited, expressed in thousands of United States Dollars)

At September 30, 2018 At December 31, 2017

## Assets

## Non-current assets

Property, plant and equipment	181,078	184,921
Intangible assets	88,906	89,119
Loans and receivables	27,118	44,696
	297,102	318,736

## Current assets

Cash and cash equivalents, restricted	53,000	2,162
Cash and cash equivalents, unrestricted	31,674	3,094
Loans and receivables	37,290	32,277
Other current assets	2,305	212
	124,269	37,745
Total assets	421,371	356,481

## Liabilities and equity

## Current liabilities

Accrued interest expense on bonds	6,800	2,799
Accounts payable and accrued expenses	2,766	4,827
Borrowings	-	185,692
	9,566	193,318

## Non-current liabilities

Borrowings	236,520	-
Provisions	9,828	9,427
Pension liability	1,594	1,781
	247,942	11,208
Total liabilities	257,508	204,526

## Equity

Share capital	637,538	637,538
Share based payments reserve	6,495	6,495
Cumulative translation adjustment	(11)	(30)

Total assets decreased in the first nine months of 2018 by \$64.9 million due to increases in cash and cash equivalents by \$50.8 million, accounts payable and accrued expenses by \$2.0 million, pension and other non-current liabilities by \$0.2 million and a decrease in the accumulated deficit of \$11.9 million related to the income generated in the period.

Total liabilities and equity	421,371	356,481
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Property, plant & equipment assets decreased during the 9 months ended September 30, 2018 by \$3.8 million which was due to depletion and depreciation costs of \$17.9 million net of additions of \$8.7 million in Atrush development costs, \$4.9 million in capitalised borrowing costs and a one-time cost reclass to PP&E from E&E of \$0.5 million. The decrease in intangible assets by \$213 thousand during the first three quarters of 2018 resulted from additions to Atrush exploration and evaluation costs of \$289 thousand net of \$498 thousand relating to the reclass to PP&E from E&E and \$4 thousand in amortisation and revaluation of foreign currency items. Loans and receivables decreased by \$12.6 million due to collecting \$10.7 million of Atrush Development Cost and Feeder Pipeline Cost loans and \$1.7 million of Atrush Exploration Cost Receivables, and a draw down of \$0.6 million of accounts receivables on Atrush oil sales, net of \$0.4 million in contributions to Feeder Pipeline costs.

## Condensed Interim Consolidated Cash Flow Statement

(Unaudited, expressed in thousands of United States Dollars)

	Three months		Nine months	
	ended September 30,		ended September 30,	
	2018	2017	2018	2017
Operating activities				
(Loss) / income for the period	(2,720)	(5,393)	11,693	(9,559)
Adjustments for:				
Borrowing costs &ndash; net of amount capitalised	8,561	3,431	15,742	6,375
Depreciation, depletion and amortisation expense	3,727	2,290	17,919	2,308
Foreign exchange loss / (gain)	21	(7)	31	19
Unwinding discount on decommissioning provision	5	7	(1)	-
Pension expense	-	-	-	11
Share based payments expense	-	-	-	11
Actuarial (loss) / gain on defined pension plan	(1)	-	196	-
Interest income	(369)	(518)	(1,196)	(1,288)
Changes in accounts receivables on Atrush oil sales	2,012	(3,782)	640	(3,782)
Changes in accounts payable and accrued expenses	151	(81)	(2,061)	(380)
Changes in pension liability				



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Changes in current tax liabilities	(4)	-	-	-
Changes in other current assets	(26)	(40)	(2,093)	(55)
Net cash inflows from / (outflows to) operating activities	11,358	(4,093)	40,685	(6,340)
Investing activities				
Loans and receivables & payments received	4,390	-	13,440	-
Interest received on cash deposits	57	29	75	94
Loans and receivables & payments issued	-	(2,133)	(394)	(9,610)
Purchases of intangible assets	(64)	(149)	(365)	(185)
Purchase of property, plant and equipment	(3,358)	(1,435)	(8,358)	(7,746)
Net cash inflows from / (outflows to) investing activities	1,025	(3,688)	4,398	(17,447)
Financing activities				
Net proceeds received on bonds issued	100,362	-	100,362	-
Proceeds from shares issued	-	-	-	27,281
Share issue related transaction costs	-	-	-	(922)
Payment to bondholders - interest and call premiums	(4,856)	-	(15,575)	-
Cash paid out on bonds retired	(50,437)	-	(50,437)	-
Net cash inflows from financing activities	45,069	-	34,350	26,359
Effect of exchange rate changes on cash and cash equivalents (2)		4	(15)	(6)

Change in cash and cash equivalents 57,450 (7,777) 79,418 2,566

The increase by \$79.4 million in the cash position of the Company in the first nine months of 2018 was due to cash inflows of \$44 million from operating activities after G&A and other cash expenses, \$49.4 million cash received on bond refinancing and \$13.5 million of principal and interest payments on KRG loans and the Exploration Cost Recoveries, which were offset by cash outflows of \$15.6 million on bond coupon interest and call premiums, \$8.7 million on Atrush development activities, \$3.7 million of negative cash adjustments on accounts receivables, payables and other working capital items and \$0.4 million of loans provided to the KRG.

## OTHER

This information in this release is subject to the disclosure requirements of [ShaMaran Petroleum Corp.](#) under the EU Market Abuse Regulation and/or the Swedish Securities Market Act. This information was publicly communicated on November 7, 2018 at 22:30 Central European Time.

## ABOUT SHAMARAN

[ShaMaran Petroleum Corp.](#) is a Kurdistan focused oil development and exploration company with a 20.1% direct interest in the Atrush oil discovery. As announced in ShaMaran's June 4, 2018 news release, the Company has signed an agreement with Marathon Oil KDV B.V. to acquire its 15% interest in the Atrush

Block. The Atrush Block is currently undergoing an appraisal and development campaign.

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

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

## FORWARD LOOKING STATEMENTS

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

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

Reserves and resources: [ShaMaran Petroleum Corp.](#)'s reserve and contingent resource estimates are as at December 31, 2017, and have been prepared and audited in accordance with National Instrument 51-101 Standards of Disclosure for Oil and Gas Activities ("NI 51-101") and the Canadian Oil and Gas Evaluation Handbook ("COGE Handbook"). Unless otherwise stated, all reserves estimates contained herein are the aggregate of "proved reserves" and "probable reserves", together also known as "2P reserves". Possible reserves are those additional reserves that are less certain to be recovered than probable reserves. There is a 10% probability that the quantities actually recovered will equal or exceed the sum of proved plus probable plus possible reserves.

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

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

SOURCE [ShaMaran Petroleum Corp.](#)

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