FINANSTILSYNET
THE FINANCIAL SUPERVISORY
AUTHORITY OF NORWAY

General Exploration Partners, Inc
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CAYMAN ISLANDS

OUR REFERENCE	YOUR REFERENCE		DATE
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Review of financial reporting

Finanstilsynet has reviewed the 2014 annual financial statement of General Exploration Partners Inc. ("GEP"), cf. Securities Trading Act section 15-1 subsection (3). Reference is made to previous correspondence, most recently GEP's reply to the advance notice of decision.

1. Introduction

GEP is a Cayman Island registered company engaged in oil exploration and development in Kurdistan in Northern Iraq. It has bonds listed on Oslo Børs. The only petroleum asset of GEP, and its ultimate parent ShaMaran Petroleum Corp. [1] ("Shamaran"), is an interest in the Atrush Block Production Sharing Contract (PSC). In the balance sheet of GEP's 2014 annual financial statement, the Atrush Block asset is recognized as an IFRS 6[2] asset with an amount of USD 173.5 million. The review has focused on several aspects related to this asset, in particular whether the asset was impaired.

2. Impairment testing

In its 2014 impairment test, the recoverable amount of the Atrush asset had been determined as its value in use. The value in use was calculated to slightly above the USD 429 million book value[3] of the Atrush asset in the financial statement of its ultimate parent, Shamaran. Finanstilsynet considers that GEP's 2014 estimate of value in use was biased, and that the assumptions applied in the calculation were not reasonable and supportable. As a whole, Finanstilsynet found that risks and uncertainties were neither sufficiently reflected in the cash flow estimates nor in the discount rate. This conclusion is based on the following main findings:

A. Overstating the cash flow estimate by assigning the same value[4] to contingent resources as proven and probable reserves

   Contingent resources are in general oil in place that cannot be reported as reserves, because it currently cannot be concluded that they are commercially recoverable. GEP's year-end

[1] Listed on the TSX Venture Exchange (Canada) and the unregulated market NASDAQ OMX First North (Sweden)
[2] IFRS 6 "Exploration for and evaluation of mineral resources"[3] Book value of the asset in Shamaran is higher than in GEP due to 2012 acquisition accounting excess values.
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[4] Undiscounted future cash inflow per barrel of future production

2014 reserve estimate, verified by an independent qualified evaluator, was a gross working interest proven and probable ("2P") reserve of 12.3 million boe. Oil in place assigned to the formations, that may be recoverable in later stages of development (2-4) of the Atrush Block did not qualify as reserves per 2014, but were reported as contingent resources. GEP's working interest share of the Atrush contingent resources ("2C") was estimated at 62.2 million boe. In the 2014 impairment test an equal amount of cash flows per barrel of oil was allocated to the production of reserves and resources, and the future development phases 2-4 (quadrupling the daily production) was assumed completed within a 5 year period. The contingent resources contributed greatly to the Atrush asset 2014 value in use estimate, and by failing to apply any risk weight to such resources (e.g. to reflect the chance of development), GEP substantially overstated the cash flow estimate used in the impairment test.

B. Overstating the cash flow estimate by applying oil price assumptions for the Atrush oil that were too high and not supported by external evidence

All oil produced from the Atrush is by GEP assumed to be exported by pipeline to Turkey. In developing the oil price curve for the Atrush oil used in the 2014 impairment test, GEP first estimated an oil price curve for the Brent Blend benchmark price. Then a discount was applied to account for the differences between Atrush oil and Brent Blend and an estimate of the cost to transport the oil to the market. For the first term of the Brent Blend benchmark price, GEP used a market forward curve as of February 27th 2015, and not the lower forward curve at the balance sheet date December 31st 2014. For prices in the longer term, GEP used a high price scenario extrapolating a USD 100 Brent Blend price from 2018 with an annual 2% growth thereafter. This high price scenario also exceeded the oil price curve estimate GEP had collected from the independent reserve evaluator. Brent Blend is a sweet crude which is easy to refine and particularly suitable for production of petrol and middle distillates. The Atrush oil is sour[5], and a significant portion[6] is heavy oil. Both are characteristics that cause oil to trade at a discount to Brent Blend. In its 2014 impairment test GEP applied a 5% quality discount, plus a pipeline transportation cost of 3 USD/barrel, in arriving at the Atrush oil price curve that was used. In the 2014 reserve report, the independent reserve evaluator applied a discount to the Brent Blend benchmark price of 25-35%. Other international oil companies with producing fields[7] in Kurdistan reported that such discounts was materializing through 2015.

C. Overstating the cash flow estimate by including potential interest payments on material advances to the Kurdish Regional Government ("KRG")

March 12th 2013 the KRG notified the Atrush contractor entities of its intention to exercise its option for a 25% government interest. Although subject to constant negotiations since then, the KRG has yet to pay a corresponding share of the Atrush development cost. In GEP's 2014 impairment test of the Atrush Block asset, approximately 15% of the net present

[5] Sour means that the oil is high in sulfur. This sulfur needs to be removed before or during the refining process.
[6] The 2014 reserve report states that Atrush has oil of varying density. The exact heavy oil share is given in the 2015 report as 70/30 (heavy/medium) for the contingent resources and 30/70 for the proven and probable reserves.
[7] The operator of Shaikan, a neighbouring oilfield to Atrush – closer to the pipeline, has later stated that in January 2016 KRG operated with a 14,7 USD/barrel quality discount for its oil, transportation cost (truck + pipeline) of 5,7 USD/barrel not included. http://www.gulfkeystone.com/media/94146/gkp-2015-results-presentation_17march2016.pdf

value was derived from potential future interest payments by the KRG on its share of the historic development costs. In 2014 such interest payments were under discussion, but no signed agreement existed. Cash inflows from financing activities and assets such as receivables, that generate inflows that are largely independent of the cash flows of the asset under review shall not be included (cf. IAS 36.50 and IAS 36.43a). The interest rate that the contractors demanded that KRG should pay to compensate for the risks and rewards of advancing historic development cost, was far higher than the 11.5% discount rate that GEP employed in its 2014 Atrush asset impairment test.

D. Understating the discount rate by applying the 11.5% coupon rate from the fixed rate bond issued by GEP in 2013

   GEP deems that the coupon rate of the 2013 bond is an asset specific rate that for subsequent periods shall be used as the pre-tax discount rate in value in use estimates. Finanstilsynet does not find the coupon rate to represent a discount rate that reflects the current market assessment of time value of money and the risks specific to the asset as required by IAS 36.55. It is Finanstilsynet's view that a discount rate should reflect a current assessment at the balance sheet date of both the required rate of return on debt and equity., e.g. through estimating a relevant weighted cost of capital ("WACC"), All available information and risks specific to the asset that has not been adjusted for in the cash flows should be reflected in the discount rate. One such factor specifically mentioned in IFRS[8], is a country risk premium. The exact arrangements have varied over time, but in general International oil companies operating in Kurdistan do not sell and receive payment directly from international customers. It is the KRG that has to honor its obligations under the PSC. In the 2014 impairment test, cash inflow is assumed received in the same period in which the oil is produced. Finanstilsynet is of the view that a country risk premium that reflects the risk of delays and possible non-settlement of obligations by the KRG should have been included, and if so would have resulted in a pre-tax discount rate for 2014 somewhere close to 20% and not less than 17%.

In evaluating GEPs response, Finanstilsynet agrees that GEP at the time of performing the 2014 impairment test may not have had access to precise data on the size of the discount for Kurdistan oil in general, and also how large a portion of the Atrush oil would be heavy oil[9]. In the 2014 Atrush reserve report, GEPs independent reserve evaluator had deemed that a discount in a range between 25-35 % was appropriate. However it was only somewhat later that international oil companies operating neighboring fields in Kurdistan reported publically on realized discounts to Brent Blend benchmark prices including transport costs, of up to 20 USD/barrel.

In its response, GEP also presents several alternative ways of determining a fair value less cost of disposal ("FVLCD"), all of which generated an estimated recoverable amount higher than the book value. Finanstilsynet finds that these estimates all have one or more qualitative or quantitative characteristics that cause them not to be documentation of a 2014 Atrush asset FVLCD estimate that can be deemed to be in accordance with IFRS 13 *Fair value measurement*.

[8] IAS 36.A18.
[9] Reserve and resource volumes were not split into different qualities of oil until the 2015 reserve report.

In concluding, Finanstilsynet finds that the totality of the new information presented by GEP in its response to the advance notice of decision, gives sufficient support to the company's original conclusion that GEP's Atrush asset book value of USD 173.5 mill was not impaired by December 31st 2014. However, it is Finanstilsynet's view that a value in use calculated based on reasonable and supportable assumptions in the cash flow and discount rate is close to book value, which is significantly below the value in use calculated by GEP.

The updated field development plan for the Atrush asset sent to KRG in November of 2015 includes no commitment for completion of further phases of development (2-4), and states that any further development beyond phase 1 will be defined depending on production results. In its 2015 annual financial statement GEP tested the assets relating to phase 1 of the Atrush development, using proven and probable reserves, separate from assets relating to the contingent resources that potentially can be accessed through later phases of development. The cash flow estimate in the 2015 impairment test is considered to be based on assumptions that to some extent take into account the findings described above. In 2015 GEP e.g. generates its short term price forecast by employing part of the Brent Blend forward curve, its mid-term price curve increases from USD 65 to USD 89 in 2023, and it also employs a higher oil price discount for the Atrush oil (USD 11 incl. pipeline transport costs). In addition, no interest from the KRG advance is included in the cash flow.

However, in 2015 GEP has continued to apply the 11.5% discount rate. This 2015 impairment test resulted in an impairment loss of USD 34.2 million. It is Finanstilsynet's view that a discount rate that reflects the current market assessment of time value of money and the risks specific to the asset would be significantly higher than the pre tax rate of 11.5%. According to the disclosed impairment loss sensitivities, each percentage point increase in the discount rate reduces the net present value by a further USD 9 million.

3. Reclassification of the Atrush asset out of IFRS 6

After consideration of the facts and circumstances up against the criteria in IFRS 6.17, Finanstilsynet found that the Atrush assets should have been reclassified at the very latest by the end of 2014, and was no longer an exploration and evaluation asset. The timing of such reclassification is important. For example, more types of costs can be capitalized on exploration and evaluation assets than for assets that have to adhere to other IFRS standards and because exploration and evaluation assets are given relief to several aspects of the full impairment requirements of IAS 36. GEP reclassified parts of the Atrush asset in November 2015.

4. Disclosure of impairment test assumptions

The value of the Atrush Block asset is significantly exposed to oil price assumptions. Disclosure requirements in IAS 1 Presentation of financial statements apply to a range of assets, also those within the scope of IFR6, IAS 16 and IAS 38. Given the materiality of the Atrush asset in GEPs financial statements and the significant changes to oil prices at the time, Finanstilsynet holds that GEP in accordance with IAS 1.125 should have disclosed the future oil price assumption (including discounts) it had applied in its impairment test of the asset. GEP refrained from giving such disclosures also in its 2015 annual financial statement. Finanstilsynet expects GEP to give such information in future annual financial statements.

5. Classification of bond issue proceeds as cash and cash equivalents

The proceeds from the bond issue was placed in an escrow account, blocked and pledged in favor of the bondholders. The bond agreement required that the proceeds could only be employed to specific purposes. Pre-disbursement from the escrow account, supporting documentation that the funds shall be applied in accordance with the mentioned article had to be forwarded to Nordic Trustee ASA. Considering the nature and liquidity of the funds in escrow, Finanstilsynet found that GEP in accordance with the requirements in IAS 1.55 should have presented the funds in escrow as an additional line item "Restricted cash", separate from cash and cash equivalents without such restrictions. GEP performed such reflassification and restated comparatives in its 2015 annual financial statement.

6. Disclosures of going concern uncertainty

Finanstilsynet found the information given by GEP in the 2014 annual financial statement on the risks and uncertainties relating to the going concern assumption to be insufficient in relation to requirements in IFRS 7 and IAS 1. Among other, more information should have been given on the following;

- i) The uncertainty surrounding the timing and amounts of cash receipts commencing from first oil,
- ii) The level of project development cost that GEP (incl. the KRGs share) may be required to fund in order to realize receipts from oil sales to its customer,
- iii) The uncertainty surrounding the timing of cash receipts relating to the advance of development costs on behalf of the KRG,
- iv) Information detailing the timing and way in which GEP will gain access to funds raised by the issuance of equity in Shamaran,
- v) Disclosure in sufficient detail on the timing of projected cash outflows relating to GEP's financial liabilities and
- vi) Disclosure of the possible actions GEP's management will take to ensure going concern if certain expectations are not met.

GEP has not improved the disclosures regarding going concern uncertainties in its 2015 annual financial statement. Finanstilsynet expects GEP to improve the disclosures regarding going concern uncertainties in future financial statements.

7. Timing of publishing of periodic financial statements

GEP prepares and distributes annual and half-year financial statements. GEP also publishes as notifications on Oslo Børs the annual as well as the quarterly financial statements for the 1st quarter and 3rd quarter of its ultimate parent Shamaran. GEP published the 2014 annual financial statement on March 26th 2015. This was 13 days after GEP had published a notification containing the annual financial statement of GEP's ultimate parent Shamaran, including the consolidated group account. As previously explained, the Shamaran Group consists for the most part of activities and assets owned by and operated on behalf of GEP. With this in mind, Finanstilsynet has communicated to GEP that such a sequence and time lag in the publication of the periodic financial reporting of these entities is inappropriate. Finanstilsynet expects that in the future, GEP's periodic financial reporting is made public at the same time as that of Shamaran.

8. Closing

With this letter, Finanstilsynet closes the review of GEPs 2014 annual financial statement.

Finanstilsynet has not considered whether the above matters are subject to the securities legislation's provisions regarding the requirement to disclose inside information in accordance with the Securities Trading Act section 5-2 subsection (1) and section 3-2. Finanstilsynet expects the undertaking to consider its requirement to disclose inside information on a continuous basis.

Finanstilsynet has forwarded a copy of this letter to the issuer's appointed auditor and to Oslo Børs.

On behalf of Finanstilsynet

Anne Merethe Bellamy
Deputy director general

Christian Falkenberg Kjøde
Head of section

This document is electronically approved, and does not need a signature.