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SHAMARAN petroleum corp

Financial Report

For the three months ended March 31, 2024

(UNAUDITED)

The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of the management of the Company. The Company's independent auditor has not performed a review of these financial statements.

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Management's Discussion and Analysis

For the three months ended March 31, 2024

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") is prepared with an effective date of May 8, 2024, and is intended to provide an overview of the Company's operations, financial performance and current and future business opportunities. The MD&A should be read in conjunction with the unaudited condensed interim consolidated financial statements for the three months ended March 31, 2024, together with the accompanying notes ("Financial Statements"), the 2023 Annual Information Form and the First Quarter 2024 Results press release.

Company Overview

The Company is engaged in the business of oil and gas exploration and production and holds the following interests in production sharing contracts:

- 27.6% participating interest in the Atrush Block in the Kurdistan Region of Iraq ("KRI") through its wholly-owned subsidiary General Exploration Partners, Inc. ("GEP"). Subject to closing of the transactions announced on January 22, 2024, GEP's direct working interest in the Atrush Block will increase to 50%.
- 18% participating interest (22.5% paying interest) in the Sarsang Block in the KRI through its wholly-owned subsidiary ShaMaran Sarsang A/S. The Company announced closing the acquisition of TEPKRI Sarsang A/S (the "Sarsang Acquisition"), a wholly-owned subsidiary of TotalEnergies S.E. ("TTE"), on September 14, 2022. The name of the company was subsequently changed to ShaMaran Sarsang A/S.

ShaMaran's common shares are listed on the TSX Venture Exchange in Canada and the NASDAQ First North Growth Market in Sweden. The Company is incorporated and domiciled in British Columbia, Canada under the *Business Corporations Act* (British Columbia). The address of its registered and records office is 1075 West Georgia Street, Suite 1200, Vancouver, BC V6E 3C9, Canada, and its business address is 1055 Dunsmuir Street, Suite 2800, PO Box 49225, Vancouver, BC V7X 1LC, Canada.

Basis of Preparation

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

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

Management's Discussion and Analysis

For the three months ended March 31, 2024

INTERIM MD&A QUARTERLY HIGHLIGHTS

- On January 22, 2024, the Company announced the signing of definitive agreements with TAQA International B.V., a subsidiary of Abu Dhabi National Energy Company PJSC ("TAQA"), and HKN Energy IV, Ltd., an affiliate of HKN Energy Ltd. ("HKN"), that upon completion will increase ShaMaran's indirect ownership in the Atrush Block from 27.6% to 50% working interest. Assuming the transaction had closed on December 31, 2023, ShaMaran's reserves and resource position would be impacted as follows:
 - Company's working interest 2P reserves would increase by 28% from 68.3 MMbbls at December 31, 2022, to 87.7 MMbbls as at December 31, 2023; and
 - Company's working interest 2P reserves replacement ratio¹ would be 769%² for 2023.
- The closure of the Iraq-Türkiye ("ITP") pipeline since March 25, 2023, continues to have a material impact on ShaMaran's operations and financial results. The Company is actively engaging with the relevant parties to resume pipeline exports;
- In Q1 2024, average gross daily oil production from Atrush and Sarsang combined was 57,400 bopd (66,800 bopd in Q1 2023), 14% lower than Q1 2023, due to the closure of the ITP;
- Revenue in Q1 2024 was \$22.6 million, 48% lower than Q1 2023 revenue of \$43.4 million, mainly due to the lower net oil price in the local sales market;
- Q1 2024 oil sales to the Kurdistan local market averaged a net oil price of \$36.49/bbl, 40% lower than Q1 2023 average net oil price of \$60.53/bbl;
- Lifting costs in Q1 2024 were \$5.5 million, 42% lower than Q1 2023 lifting costs of \$9.5 million, due to lower production and a focus on cost reduction following the ITP closure;
- Q1 2024 gross margin on oil sales of \$6.8 million, 69% lower than the Q1 2023 gross margin on oil sales of \$22.1 million, due to the lower local sales net oil prices and lower production;
- EBITDAX³ has consistently increased since the ITP shutdown, with Q1 2024 EBITDAX at \$14.2 million (Q1 2023 EBITDAX was \$30.2 million);
- The Company generated \$18.3 million in operating cash flow during Q1 2024 from local sales, matching Q1 2023 operating cash flow (the last quarter prior to the ITP shutdown);
- ShaMaran generated \$17.5 million of free cash flow before debt service³ in Q1 2024 due to the strength of local sales and proactive cost-cutting at both the corporate and operating asset levels, Q1 2023 free cash flow before debt service was \$6.7 million;
- In January 2024, the Company retired \$22.5 million of its own bonds to satisfy the semi-annual bond amortization alongside the cash coupon payment of \$16.6 million on the ShaMaran 2025 bond; and
- At March 31, 2024, the Company had cash of \$71.6 million (including restricted cash of \$25.3 million) and gross debt of \$270.6 million (including the \$255 million bond and \$15.6 million related-party loan). Net debt³ was \$193.1 million (including \$5.9 million in ShaMaran 2025 bonds held by the Company).

¹ Company's working interest of proved and probable ("2P") reserves replacement ratio is defined as the ratio of reserves additions to production during the year, including impacts of acquisitions and dispositions.

² Company's working interest 2P reserve replacement ratio for the combined blocks has been calculated as follows:

	No Acquisition	Acquisition Included
Extensions, MMstb	-	-
Improved Recovery, MMstb	-	-
Technical Revisions, MMstb	-	-
Acquisitions, MMstb	-	22.3
Total Adjustments, MMstb	-	22.3
2023 Production, MMstb	2.9	2.9
2P Replacement Ratio	-	769%

³ Non-IFRS Accounting Standards measures do not have any standardized meaning prescribed by IFRS Accounting Standards and are therefore unlikely to be comparable to similar measures presented by other public companies. Non-IFRS Accounting Standards measures should not be considered in isolation or as a substitute for measures prepared in accordance with IFRS Accounting Standards. The Company uses non-IFRS Accounting Standards measures to provide investors with supplemental measures.

Management's Discussion and Analysis

For the three months ended March 31, 2024

OPERATIONS REVIEW

	Three months ended March 31,		Three months ended
	2024	2023	December 31,
			2023
Average daily oil production – gross 100% field (Mbopd)			
- Atrush	20.0	30.6	9.0
- Sarsang	37.4	36.2	36.4
Total	57.4	66.8	45.4
Oil sales – gross 100% field (Mbbbl)			
- Atrush	1,817	2,729	829
- Sarsang	3,345	3,153	3,519
Total	5,162	5,882	4,348
ShaMaran oil sales entitlement (Mbbbl)			
- Atrush	27.6%	241	361
- Sarsang	18.0%	378	356
Total		619	717

At Atrush, the ITP closure on March 25, 2023, shut-in production until November 7, 2023, when local sales started at a reduced rate through pipeline flow reversal. Following a period of curtailment to a maximum of 10,000 bopd for most of December 2023 and January 2024, Atrush production increased to 20,000 bopd at the end of January 2024. Production increased in February 2024 to approximately 25,000 bopd, which the Atrush operator considers the maximum sales level for domestic deliveries without trucking facilities.

At Sarsang, well and processing capacity has been optimized to meet local sales demand and maximize field cash generation since the ITP closure, with two of the four available production facilities maintained online for an average production rate of 37,400 bopd during Q1 2024. Following a decrease during facilities maintenance in April 2024, production has partially recovered as of the end of April, with further increases towards the Q1 2024 levels expected in the coming weeks.

The ST-AW1 water disposal well was drilled and completed in April 2023 and became operational in March 2024.

Management's Discussion and Analysis

For the three months ended March 31, 2024

FINANCIAL REVIEW

Financial Results

Selected Quarterly Financial Information

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

USD Thousands (except per share data)	Q1 2024	Q4 2023	Q3 2023	Q2 2023	Q1 2023	Q4 2022	Q3 2022	Q2 2022
Continuing operations:								
Revenue	22,588	20,320	12,644	6,542	43,380	53,173	39,812	44,844
Cost of goods sold	(15,748)	(9,291) ⁴	(11,049)	(10,741)	(21,282)	(37,979)	(10,952)	(10,636)
Net Gain on Sarsang Acquisition	-	(360)	-	-	360	9,229	50,852	-
General and admin expense	(1,780)	(2,865)	(1,575)	(2,486)	(3,361)	(3,682)	(2,275)	(2,359)
Share-based payments	(997)	(376)	(315)	(1,151)	(222)	(549)	(212)	(176)
Depreciation and amortization	(59)	(58)	(61)	(59)	(58)	(54)	(55)	(55)
Credit loss provision	2,796	(305)	(644)	(11,568)	(1,421)	127	(1,492)	(1,897)
Finance cost	(8,555)	(9,560)	(8,961)	(9,748)	(9,700)	(9,686)	(11,809)	(8,972)
Finance income	1,320	1,691	1,774	2,042	1,923	1,848	2,601	435
Income tax expense	(58)	(100)	(15)	(30)	(20)	(80)	(42)	(14)
Net (loss) / income	(493)	(904)	(8,202)	(27,199)	9,599	12,347	66,428	21,170
EBITDAX	14,234	12,839	5,834	(4,876)	30,227	39,624	32,626	37,339
Net (loss)/income in \$ per share								
- Basic	-	-	(0.003)	(0.010)	0.003	0.004	0.024	0.009
- Diluted	-	-	(0.003)	(0.009)	0.003	0.004	0.023	0.008

EBITDAX is calculated as the net result before financial items, taxes, depletion of oil and gas properties, impairment costs, depreciation and exploration expenses and adjusted for non-recurring profit/loss on sale of assets and other income. Explanations of the significant variances between periods are provided in the following sections.

Summary of Principal Changes in the First Quarter Financial Information

The \$0.5 million net loss generated in Q1 2024 was primarily driven by the continuing impact of the ITP shutdown, which resulted in lost revenue. The income and expenses in Q1 2024 are explained in more detail in the following sections.

⁴ Cost of goods sold in Q4 2023 included an annual depletion correction credit of \$3.9 million, as during the year the depletion charge is estimated and then adjusted at Q4 to be in line with the year end reserves report.

Management's Discussion and Analysis

For the three months ended March 31, 2024

Gross margin on oil sales

USD Thousands	Three months ended March 31,	
	2024	2023
Revenue from oil sales	22,588	43,380
Lifting costs	(5,500)	(9,461)
Other costs of production	(77)	(109)
Depletion costs	(10,171)	(11,712)
Cost of goods sold	(15,748)	(21,282)
Gross margin on oil sales	6,840	22,098

Revenue from oil sales relates to the Company's entitlement share of oil sales from the Atrush and Sarsang blocks. The decrease in revenues in Q1 2024 compared to Q1 2023 was driven by the lower realized sales prices in the local market and lower oil sales compared to the period prior to the ITP closure. The revenue of \$22.6 million in Q1 2024 relates to local oil sales from Sarsang and Atrush. The oil prices for local sales are at a significant discount to international benchmark prices. The average net oil price for Q1 2024 was \$36.49 per barrel, 40% less compared to the Q1 2023 average net oil price of \$60.53 per barrel after deducting the discount for oil quality and transportation costs. The Company's entitlement share of oil sales in Q1 2024 was 0.6 MMbbls, 14% less compared to 0.7 MMbbls in Q1 2023.

Lifting costs comprise the Company's share of expenses related to the production of oil from the Atrush and Sarsang blocks, including operation and maintenance of wells and production facilities, insurance and the respective operator's related support costs as charged to the Company. Lifting costs were 42% lower in Q1 2024 compared to Q1 2023 due to lower production levels and cost savings achieved after closure of the ITP.

Other costs of production include the Company's share of other costs prescribed under the Atrush and Sarsang production sharing contracts ("PSCs").

Depletion costs have decreased 13% in Q1 2024 compared to Q1 2023 due to reduced oil sales (the depletion costs calculation is based on entitlement barrels sold).

Gross margin on oil sales was significantly lower in Q1 2024 versus Q1 2023 due to lower oil sales and lower oil price realizations in the local market (versus export prices achieved in Q1 2023).

Management's Discussion and Analysis

For the three months ended March 31, 2024

General and administrative expense

USD Thousands	Three months ended March 31,	
	2024	2023
Salaries and benefits	968	989
Advisory and consulting fees	266	602
General and other office expenses	159	194
Legal, accounting and audit fees	198	1,068
Listing costs and investor relations	105	167
Corporate sponsorship	55	171
Travel expenses	29	170
General and administrative expense	1,780	3,361
Non-recurring costs	-	1,050
Adjusted G&A	1,780	2,311

The decrease in general and administrative ("G&A") expenses in Q1 2024 compared to Q1 2023 is due to savings from ongoing cost reduction initiatives. The adjusted G&A shows the impact of the substantial one-off business development legal and consulting fees incurred during Q1 2023.

Finance cost

USD Thousands	Three months ended March 31,	
	2024	2023
Interest/amortization charges on bonds	8,751	9,723
Amortization of the related-party loan	542	497
Total borrowing costs	9,293	10,220
Lease interest expense	5	1
Unwinding discount on decommissioning provision	4	(103)
Re-measurement of contingent consideration	(147)	138
Total finance costs before borrowing costs capitalized	9,155	10,256
Borrowing costs capitalized	(600)	(556)
Total finance cost	8,555	9,700

Interest and amortization charges relate to the Company's \$300 million bond, which has a 4-year tenor maturing in July 2025 and a 12% fixed, semi-annual coupon (the "2025 Bond"). The 2025 Bond amortizes by \$22.5 million semi-annually starting in July 2023, and the current outstanding amount is \$255 million following the January 2024 amortization.

Borrowing costs directly attributable to the preparation of development assets for their intended use have been capitalized together with the related oil and gas assets. All other borrowing costs are recognized in the income statement in the period in which they are incurred.

For further information on the Company's borrowings, refer to the discussions in the section below entitled "Borrowings".

Management's Discussion and Analysis

For the three months ended March 31, 2024

Capital Expenditures

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

The net book value of PP&E principally comprises development costs related to the Company's share of the Atrush PSC and the fair value of the Company's share of the Sarsang PSC 2P reserves as estimated by the Company's independent qualified reserves evaluator, McDaniel & Associates Consultants Ltd., plus development costs related to the Company's share of the Sarsang PSC since the acquisition. The movements in PP&E are explained below:

USD Thousands	Three months ended March 31, 2024			Year ended December 31, 2023		
	Oil and gas assets	Office equipment	Total	Oil and gas assets	Office equipment	Total
Opening net book value	302,091	101	302,192	302,217	167	302,384
Additions	2,807	(2)	2,805	25,725	57	25,782
Depletion and depreciation expense	(10,170)	(27)	(10,197)	(25,851)	(123)	(25,974)
Net book value	294,728	72	294,800	302,091	101	302,192

Financial Position and Liquidity

Accounts receivable

At March 31, 2024, the Company had the following receivables outstanding:

USD Thousands	At March 31, 2024	At December 31, 2023
Accounts receivable on oil sales	91,645	95,474
Credit Loss Provision – transportation costs	(3,695)	(3,695)
Credit Loss Provision	(14,648)	(17,445)
Total accounts receivable	73,302	74,334

The accounts receivable on oil sales at March 31, 2024, mainly relates to deliveries to the Kurdistan Regional Government ("KRG") from October 2022 through March 2023. The Company continues to discuss the recovery of these receivables with the KRG, but timing is uncertain. The Company has reassessed the credit loss provision and has compared the carrying value of the relevant trade receivables with the present value of the estimated future cash flows based on reasonable recovery scenarios, weighted by the relative probability of these potential outcomes. A relevant discount rate has been applied to reflect counterparty credit risk to provide a reasonable approximation of the fair value of these trade receivables at March 31, 2024. The result of the Company's assessment under IFRS 9 is a \$2.8 million adjustment to these trade receivables in Q1 2024, included in the statement of comprehensive income.

A full provision was made during 2022 to account for a possible increase in transportation and access fees of \$3.7 million. According to the KRG, these costs were added as a result of increased pipeline fees and other tariffs. This increase has yet to be agreed between the parties and relates to oil sales prior to September 1, 2022.

Borrowings

The Company's 2025 Bond is partially amortized in instalments, with \$22.5 million due every six months starting in July 2023, and the remaining balance due at maturity in July 2025.

At December 31, 2023, the Company owned \$28.4 million of its 2025 Bond. In January 2024, \$22.5 million of these bonds were cancelled to satisfy the 2025 Bond amortization obligation. At March 31, 2024, the Company held \$5.9 million of its own 2025 Bond.

At March 31, 2024, the outstanding principal of the 2025 Bond was \$255 million, and \$25.3 million of restricted cash was held in a Debt Service Retention Account pledged to the Bond Trustee.

Management's Discussion and Analysis

For the three months ended March 31, 2024

The movements in borrowings are explained below:

USD Thousands	At March 31, 2024	At December 31, 2023
Opening balance	257,255	269,145
Interest / amortization charges	8,751	38,707
Own bonds cancelled	22,500	2,303
Bond amortization	(22,500)	(22,500)
Payments to bondholders – interest	(16,650)	(30,400)
Ending balance	249,356	257,255
Non-current portion – net borrowings	193,746	193,746
Current portion – amortization instalments	45,000	45,000
Current portion – accrued bond interest expense	10,610	18,509

Liquidity and Capital Resources

USD Thousands	For the three months ended March 31,	
	2024	2023
Selected liquidity indicators		
Cash flow from operations	18,315	18,266
Working capital	57,088	132,830
Cash in bank	71,555	99,289

Cash flow from operations of \$18.3 million for Q1 2024 is inline with the amount reported in the same period of 2023.

Working capital at March 31, 2024, was positive \$57.1 million compared to positive \$132.8 million at March 31, 2023. The decrease in working capital since March 31, 2023, is principally due to part of the Company's receivables now being classified as a non-current asset due to the uncertainty of recovery timing and the decrease in cash balance.

Cash in bank decreased by \$0.2 million in Q1 2024 compared to a decrease of \$6.4 million in Q1 2023. The main components of the movement in funds were as follows:

- The operating activities of the Company in Q1 2024 resulted in an increase of \$18.3 million in the cash position (Q1 2023: increase of \$18.3 million).
- Net cash outflow for investing activities in Q1 2024 was \$0.8 million (2023: net cash outflows of \$11.5 million). Cash outflows for investing activities comprised \$2.1 million for capital investments in the Atrush and Sarsang development work programs net of cash inflows of \$1.3 million for interest received.
- Net cash outflows for financing activities in Q1 2024 were \$17.6 million (2023: net cash outflows of \$13.2 million) and comprised \$16.7 million of interest payments to ShaMaran bondholders and \$0.9 million of interest payments for the Nemesia loan.

The unaudited condensed interim consolidated Financial Statements were prepared on the going concern basis, which assumes that the Company will be able to realize into the foreseeable future its assets and liabilities in the normal course of business as they come due. Refer also to the discussion in the section below on "Risks and Uncertainties."

Management's Discussion and Analysis

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Non-IFRS Accounting Standards Measures

The following tables set out how the Non-IFRS Accounting Standards Measures are calculated from figures shown in the Financial Statements:

EBITDAX

USD Thousands	Three months ended March 31,	
	2024	2023
Revenues	22,588	43,380
Lifting costs	(5,500)	(9,461)
Other costs of production	(77)	(109)
General and administrative expense	(1,780)	(3,361)
Share-based payments	(997)	(222)
EBITDAX	14,234	30,227

Free cash flow before debt service

USD Thousands	Three months ended March 31,	
	2024	2023
Net cash inflows from operating activities	18,315	18,266
Net cash outflows to investing activities	(812)	(11,529)
Free cash flow before debt service	17,503	6,737

Net debt

USD Thousands	At March 31, 2024		At December 31, 2023	
Cash and cash equivalents, unrestricted	46,231		48,881	
Cash and cash equivalents, restricted	25,324		22,841	
Company held 2025 Bond	5,900		28,400	
Outstanding principal of 2025 Bond	(255,000)		(277,500)	
Loan from related party	(15,600)		(15,600)	
Net debt	(193,145)		(192,978)	

All figures in the net debt calculation are based on their nominal value at the balance sheet date. See Notes 14 and 15 in the financial statements.

Off Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Management's Discussion and Analysis

For the three months ended March 31, 2024

Transactions with Related Parties

USD Thousands	Purchase of services in the three months ended March 31,		Current amounts owing at the balance sheet dates	
	2024	2023	March 31, 2024	December 31, 2023
Nemesia	542	459	728	1,123
Lundin Foundation	55	65	-	-
International Petroleum Corp.	23	-	25	31
Namdo Management Services Ltd.	22	8	24	-
Orrön Energy AB	10	-	5	-
Total	652	532	782	1,154

Nemesia is a company controlled by a trust settled by the estate of the late Adolf H. Lundin and is a shareholder and bondholder of the Company. The Company has a subordinated loan from Nemesia and the obligation to accrue 12% annual interest payable in cash semi-annually plus an additional interest amount of 2% per annum payable in kind based on the principal balance outstanding.

Lundin Foundation is a non-profit organization, of which the Company is a member, that provides services for Lundin Group companies.

International Petroleum Corp., Namdo Management Services Ltd. and Orrön Energy AB are companies affiliated with shareholders of the Company and provide corporate, technical and administrative support services to the Company.

All transactions with related parties are conducted in the normal course of business and are made on an arm's length basis as with all third parties.

Outstanding Share Data, Share Units and Stock Options

Common shares

The Company had 2,827,448,827 outstanding shares (3,017,823,914 shares fully diluted) at March 31, 2024, and 2,827,448,827 outstanding shares at the date of this MD&A.

Details of share issuance in Q1 2024 are as follows:

- 3,086,670 RSUs vested in March 2024 in accordance with the Company's Share Unit Plan and were issued to grantees. The carrying value of the RSUs has been determined based on the Company's average closing share price over the 5-day period prior to the vesting date.

Share units and Stock options

ShaMaran has established a deferred share unit plan ("the "DSU Plan"), a share unit plan (the "Share Unit Plan") and a stock option plan (the "Stock Option Plan") whereby the Company may, from time to time, grant up to a total of 10% of the issued share capital to directors, officers, employees or consultants. At March 31, 2024, a total of 190,375,087 shares, 7% of the issued share capital, had been granted of the possible 282,744,883 shares that could be granted under the plans. Under the plans, the Company may also grant performance share units ("PSUs"), RSUs or DSUs. As at March 31, 2024, and the date of this MD&A, there are no PSUs outstanding. The DSU Plan exists for non-executive directors of the Company.

During Q1 2024, the Company granted:

- 41,110,000 RSUs to certain senior officers and other eligible persons of the Company at a grant-date share price of CAD \$0.05;
- 5,239,369 of DSUs to non-executive directors at a grant-date share price of CAD \$0.05; and
- 26,540,000 stock options to certain senior officers and other eligible persons of the Company at an exercise price of CAD \$0.05.

In Q1 2024, 1,475,335 DSUs were redeemed in cash due to the end of service of a plan participant.

At March 31, 2024, there were 107,403,000 stock options outstanding under the Company's employee incentive Stock Option Plan, which represents 4% of the total shares outstanding at March 31, 2024.

The Company has no warrants outstanding.

Management's Discussion and Analysis

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Movements in the Company's outstanding options and share units in the quarter are explained below:

	Number of stock options outstanding	Number of RSUs outstanding	Number of DSUs outstanding
At December 31, 2023	80,863,000	24,600,002	16,584,721
Granted in the period	26,540,000	41,110,000	5,239,369
DSUs redeemed	-	-	(1,475,335)
RSUs vested	-	(3,086,670)	-
At March 31, 2024	107,403,000	62,623,332	20,348,755
Quantities vested and unexercised:			
At December 31, 2023	44,261,337	-	16,584,721
At March 31, 2024	55,683,008	-	20,348,755

Contractual Obligations and Commitments

Production Sharing Contracts

The Company is responsible for its pro-rata share of petroleum costs incurred in executing the development and production work programs on the Atrush and Sarsang blocks. ShaMaran also carries its pro-rata share of the KRG's petroleum costs in the Sarsang Block.

As at March 31, 2024, the outstanding commitments of the Company were as follows:

USD Thousands	For the year ended March 31,				Total
	2025	2026	2027	Thereafter	
Atrush and Sarsang block development and PSC	23,676	166	166	992	25,000
Sarsang contingent consideration	-	-	-	15,000	15,000
Corporate office and other	32	-	-	-	32
Total commitments	23,708	166	166	15,992	40,032

Amounts relating to Atrush and Sarsang block developments represent the Company's unfunded paying interest share of the proposed 2024 work program and other obligations under the PSCs. The capital expenditure commitments in the work plan and budgets are contingent upon continuation of local sales. Spending has been reduced by the operators of both blocks due to the ITP closure in March 2023.

The contingent consideration relates to the purchase consideration of the Sarsang Acquisition and is payable to the seller upon (i) cumulative gross oil production from the Sarsang PSC reaching 130 MMbbls and (ii) Brent crude oil prices averaging at least \$60/bbl for the preceding twelve-month period. The Company estimates the fair value of this contingent consideration at the end of each quarter and treats any difference as a finance income/cost.

Management's Discussion and Analysis

For the three months ended March 31, 2024

Critical Accounting Policies and Estimates

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

Accounting for Oil and Gas Operations

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

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

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

Producing properties and significant unproved properties are assessed annually, or more frequently as economic events dictate, for potential indicators of impairment. Economic events that 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 petroleum resources in the specific area is neither budgeted nor planned;
- Sufficient data exists to indicate that, although a development in the specific area is likely to proceed, the carrying amounts of exploration and evaluation costs 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; and
- A significant downwards revision in estimated volumes or an upward revision in future development costs.

For impairment testing, the assets are aggregated into 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 depletion and depreciation that would have been charged since the impairment.

In 2024, all of the Company's development activities are conducted jointly with others.

Management's Discussion and Analysis

For the three months ended March 31, 2024

FINANCIAL INSTRUMENTS

The Company's financial instruments currently consist of cash, cash equivalents, advances to joint operations, other receivables, borrowings, related-party loans, 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. This includes the Company's receivables that 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 amortized 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 that 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 that 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 that 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 is a risk as the prices that the Company receives for its oil production may have a significant impact on the Company's revenues and cash flows provided by operations. During the quarter, the Company received oil sales revenues at a negotiated local sales price that was considerably less than would otherwise have been received if the ITP was available for export and sales were made at least at the KBT price. It is unclear when the ITP will re-open and a payment mechanism agreed so that export sales can resume at international pricing.

The Company does not hedge against commodity price risk.

Foreign currency risk is a low risk since all of the Company's revenues and most of its purchases are denominated in USD, and therefore the Company maintains a substantial portion of its cash and cash equivalents in the currency. 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, such as CHF and 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 small amounts of foreign currencies at any point in time and because its volume of transactions in foreign currencies is relatively low. Therefore, the Company does not hedge its exposure to changes in foreign currency exchange rates.

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

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

ShaMaran is leveraged through bond financing and a related-party loan at the corporate level. However, the Company is not exposed to interest-rate risks associated with its 2025 Bond or the Nemesia loan as these interest rates are fixed.

Management's Discussion and Analysis

For the three months ended March 31, 2024

Credit risk is a risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company is primarily exposed to credit risk on its cash and cash equivalents and 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 Financial Statements represent the Company's maximum exposure to credit risk.

Liquidity risk is a risk that the Company will have difficulties meeting its financial obligations as they become due. Like with many oil and gas companies, the Company raises financing for its 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 development and production of oil and gas reserves, and, as the Company continues to develop projects, 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 forecasted and actual cash flows. Annual capital expenditure budgets are prepared, monitored and updated as necessary. In addition, the Company requires authorizations for expenditures on both of its non-operating projects to further manage capital expenditures.

RISK AND UNCERTAINTIES

Shamaran is engaged in the development and production of crude oil and natural gas, and its operations are subject to various risks and uncertainties that include but are not limited to those listed below. Additional risks and uncertainties not presently known to the Management of the Company, or that Management of the Company presently deem to be immaterial, may also impair the business and operations of the Company and cause the price of the shares in the Company to decline. If any of the risks described below materialize, the effect on the Company's business, financial condition or operating results could be materially adverse.

Implementation of the 2023-2025 Federal Budget Law ("Federal Budget Law")

As previously noted in the Company's 2023 Annual Information Form, there has not yet been consistent monthly budget allocations paid to the KRG since the enactment of the Federal Budget Law. As at the date of this MD&A, there remains uncertainty as to the amounts and timings of the budget allocation payments, and there continues to be no guarantee that these budget allocations, even if received in full and on time, would be sufficient to cover regular payments per the PSC terms and the outstanding payables to international oil companies.

Continuing export pipeline shutdown

The ITP was closed on March 25, 2023, and remains shut as at the date of this MD&A. It is noted that the recent visit of Iraq Prime Minister Sudani to meet U.S. President Biden at the White House on April 15, 2024, resulted in a joint statement that affirmed the importance of ensuring Iraqi oil can reach international markets and their desire to re-open the ITP. Discussions continue among the relevant parties for the re-opening of the ITP and resumption of oil exports from the KRI as soon as possible. Actions to preserve liquidity through significant deferral of expenditures across the business (see "Business Outlook") are continuing in both the Atrush and Sarsang blocks. The reduction of production from the Atrush and Sarsang blocks to meet local market demands and the lower local sales prices being received represent a continuing risk to the Company's liquidity position. Despite the recent joint statement made from the White House, there can be no certainty when the ITP will re-open for exports and payments at international oil market prices will resume for oil production from the KRI, and the Company is continually monitoring this matter.

Federal Supreme Court of Iraq ruling

As previously noted in the Company's 2023 Annual Information Form, the Federal Supreme Court of Iraq ("FSC") 2022 ruling that the Kurdistan Region's 2007 Oil and Gas Law is unconstitutional and the instruction to the Ministry of Oil ("MoO") to take steps to implement the FSC's decision are still in place. It has been reported that court cases against certain international oil companies and the validity of their Kurdistan PSCs were commenced in a Baghdad commercial court later in 2022, but, as at the date of the MD&A, no enforcement of any such commercial court rulings relating to Kurdistan PSCs has been made, and it is believed that this matter continues to be frozen. It is noted that all Kurdistan PSCs are governed by English law, and dispute/enforcement actions (if any) are mandated as per Kurdistan PSC terms to be conducted in London under London International Court of Arbitration rules. The Company continues to monitor the situation closely.

Management's Discussion and Analysis

For the three months ended March 31, 2024

Russia-Ukraine and Gaza-Israel conflicts

At the date of this MD&A, all oil production in the KRI, including from the Atrush and Sarsang blocks, is being sold in the domestic market at local sales prices that have not been affected by the Russia-Ukraine or Gaza-Israel conflicts. If these conflicts are still continuing in the future, they may have an adverse impact to the realised pricing in the international oil markets.

The Gaza-Israel conflict does not yet appear to have had any impact on the Company's operations in the KRI, nor has it, as at the date of the MD&A, had any direct impact on local sales pricing of Kurdistan oil.

For more information on risk factors that 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, as well as to the "Risk Factors" section of the Company's 2023 Annual Information Form.

ADDITIONAL INFORMATION

Additional information related to the Company, including its 2023 Annual Information Form, is available on SEDAR+ at www.sedarplus.ca under the Company's profile and on the Company's website at www.shamaranpetroleum.com.

ShaMaran plans to publish its financial statements for the six months ending June 30, 2024, on August 8, 2024.

OTHER SUPPLEMENTARY INFORMATION

Abbreviations

CAD	Canadian dollar
CHF	Swiss franc
EUR	Euro
USD	US dollar

Oil-related terms and measurements

bbbl	Barrel (1 barrel = 159 litres)
boe	Barrels of oil equivalent
boepd	Barrels of oil equivalent per day
bopd	Barrels of oil per day
Mbbl	Thousand barrels
MMbbl	Million barrels
Mboe	Thousand barrels of oil equivalent
Mboepd	Thousand barrels of oil equivalent per day
Mbopd	Thousand barrels of oil per day
Mcf	Thousand cubic feet
MMboe	Million barrels of oil equivalent

Condensed Interim Consolidated Statement of Comprehensive Income (unaudited)
For the three months ended March 31, 2024

<i>Expressed in thousands of United States dollars</i>	Note	For the three months ended March 31,	
		2024	2023
Revenues	5	22,588	43,380
Cost of goods sold:			
Lifting costs	6	(5,500)	(9,461)
Other costs of production	6	(77)	(109)
Depletion	6	(10,171)	(11,712)
Gross margin on oil sales		6,840	22,098
Credit loss provision	12	2,796	(1,421)
Depreciation and amortization expense		(59)	(58)
Share-based payments expense	18	(997)	(222)
General and administrative expense	7	(1,780)	(3,361)
Income from operating activities		6,800	17,036
Bargain purchase gain on acquisition adjustment		-	360
Finance income	8	1,320	1,923
Finance cost	9	(8,555)	(9,700)
Net finance cost		(7,235)	(7,777)
(Loss) / Income before income tax expense		(435)	9,619
Income tax expense	10	(58)	(20)
(Loss) / Income for the period		(493)	9,599
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Re-measurements on defined pension plan		-	-
Items that may be reclassified to profit or loss:			
Currency translation differences		(89)	-
Total other comprehensive income		(89)	-
Total comprehensive (loss) / income for the period		(582)	9,599
Income in dollars per share:			
Basic		-	0.003
Diluted		-	0.003

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

Condensed Interim Consolidated Balance Sheet (unaudited)

As at March 31, 2024 and December 31, 2023

<i>Expressed in thousands of United States dollars</i>	Note	March 31, 2024	December 31, 2023
ASSETS			
Non-current assets			
Property, plant and equipment	11	294,800	302,192
Accounts receivable	12	26,719	35,421
Other non-current assets		28	69
		321,547	337,682
Current assets			
Accounts receivable	12	46,583	38,913
Cash and cash equivalents, unrestricted		46,231	48,881
Cash and cash equivalents, restricted	14	25,324	22,841
Other current assets		673	2,094
		118,811	112,729
TOTAL ASSETS		440,358	450,411
LIABILITIES			
Non-current liabilities			
Borrowings	14	193,746	193,746
Provisions	16	27,833	27,839
Loan from related party	15	16,328	16,723
Cash-settled deferred share units	18	901	565
Other non-current liabilities		377	405
		239,185	239,278
Current liabilities			
Borrowings	14	45,000	45,000
Accrued interest expense on bonds	14	10,610	18,509
Accounts payable and accrued expenses	13	6,102	8,047
Other current liabilities		11	146
		61,723	71,702
EQUITY			
Share capital	17	671,265	671,136
Share-based payments reserve		12,513	12,041
Cumulative translation adjustment		116	205
Accumulated deficit		(544,444)	(543,951)
		139,450	139,431
TOTAL EQUITY AND LIABILITIES		440,358	450,411

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

Signed on behalf of the Board of Directors

/s/Michael S. Ebsary
Michael S. Ebsary, Director

/s/Chris Bruijnzeels
Chris Bruijnzeels, Director

Condensed interim Consolidated Statement of Cash Flow (unaudited)
For the three months ended March 31, 2024

<i>Expressed in thousands of United States dollars</i>	Note	For the three months ended March 31,	
		2024	2023
Operating activities			
(Loss) / Income for the period		(493)	9,599
Adjustments for non-cash related items:			
Depreciation, depletion and amortization expense		10,230	11,770
Borrowing costs – net of amount capitalized		8,546	10,447
Share-based payment expense		937	185
Unwinding discount on decommissioning provision		4	(103)
Bargain purchase gain on Sarsang acquisition adjustment		-	(360)
Foreign exchange gain	8	(63)	-
Interest income	8	(1,257)	(1,923)
Changes in other current assets		1,421	873
Changes in accounts receivable on oil sales		1,032	(5,348)
Changes in pension liability		-	(1)
Changes in current tax liabilities		(97)	(54)
Changes in accounts payable and accrued expenses		(1,945)	(6,819)
Net cash inflows from operating activities		18,315	18,266
Investing activities			
Interest received on cash deposits	8	1,257	1,923
Purchase of property, plant and equipment		(2,069)	(13,452)
Net cash outflows to investing activities		(812)	(11,529)
Financing activities			
Principal element of lease payments		(34)	(122)
Payments to bondholders and related party – interest	14,15	(17,586)	(13,045)
Net cash outflows to financing activities		(17,620)	(13,167)
Effect of exchange rate changes on cash and cash equivalents		(50)	(11)
Change in cash and cash equivalents		(167)	(6,441)
Cash and cash equivalents, beginning of the year		71,722	105,730
Cash and cash equivalents, end of the period*		71,555	99,289
*Inclusive of restricted cash		25,324	59,147

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

Condensed Interim Consolidated Statement of Changes in Equity (unaudited)
For the three months ended March 31, 2024

	Share capital	Share-based payments reserve	Cumulative translation adjustment	Accumulated deficit	Total
<i>Expressed in thousands of United States dollars</i>					
Balance at January 1, 2023	670,250	10,621	21	(517,198)	163,694
Total comprehensive income for the period:					
Income for the period	-	-	-	9,599	9,599
Transactions with owners in their capacity as owners:					
Share-based payments expense (excluding DSU, Note 18)	-	(334)	-	-	(334)
Options exercised	38	-	-	-	38
RSU Shares issued	714	-	-	-	714
	752	(334)	-	9,599	10,017
Balance at March 31, 2023	671,002	10,287	21	(507,599)	173,711
Balance at December 31, 2023	671,136	12,041	205	(543,951)	139,431
Total comprehensive loss for the period:					
Loss for the period	-	-	-	(493)	(493)
Other comprehensive income loss	-	-	(89)	-	(89)
Transactions with owners in their capacity as owners:					
Share-based payments expense (excluding DSU, Note 18)	-	472	-	-	472
RSU Shares issued	129	-	-	-	129
	129	472	(89)	(493)	19
Balance at March 31, 2024	671,265	12,513	116	(544,444)	139,450

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

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

For the three months ended March 31, 2024

Expressed in thousands of United States dollars

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 1075 West Georgia Street, Suite 1200, Vancouver, British Columbia V6E 3C9, Canada. The Company’s shares trade on the TSX Venture Exchange in Canada and NASDAQ First North Growth Market in Sweden under the symbol “SNM”.

The Company is engaged in the business of oil and gas exploration and production and holds the following interests at March 31, 2024:

- 27.6% non-operated participating interest in the Atrush Block production sharing contract (“Atrush PSC”) in the Kurdistan Region of Iraq (“KRI”). The Atrush Block twenty-year development period commenced in Q4 2013 with an automatic right to a five-year extension and the possibility to extend for an additional five years. Oil production on the Atrush Block commenced in Q3 2017.
- 18% non-operated participating interest (22.5% paying interest) in the Sarsang Block production sharing contract (“Sarsang PSC”) in the KRI. This interest is consolidated in the Company’s financial statements from September 14, 2022, when ShaMaran closed the acquisition of TEPKRI Sarsang A/S, a subsidiary of TotalEnergies S.E. (the “Sarsang Acquisition”). The Sarsang Block twenty-year development period commenced in Q2 2013 with an automatic right to a five-year extension and the possibility to extend for an additional five years. Oil production on the Sarsang Block commenced in Q1 2013.

On January 22, 2024, the Company announced the signing of definitive agreements with TAQA International B.V., a subsidiary of Abu Dhabi National Energy Company PJSC (“TAQA”), and HKN Energy IV, Ltd., an affiliate of HKN, that upon completion will increase ShaMaran’s indirect ownership in the Atrush Block from 27.6% to 50% working interest.

2. Basis of preparation and going concern

a. Basis of preparation

These unaudited condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS Accounting Standards”) 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 period. The policies applied in these unaudited condensed consolidated financial statements are based on IFRS Accounting Standards as of May 8, 2024, the date these unaudited condensed consolidated financial statements were approved and authorized for issuance by the Company’s board of directors (“the Board”).

b. Going concern

These unaudited condensed interim consolidated financial statements have been 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.

The Company’s operations have been heavily impacted by the closure of the Iraq-Türkiye pipeline (“ITP”) on March 25, 2023, a situation that continues as of the date of these financial statements. The Atrush Block had no production from late March 2023 until November 7, 2023, when production restarted at a reduced rate with sales to local refineries. The Sarsang Block, after a brief shut-in during April 2023, continued producing at a reduced rate with additional oil storage capacity secured late in April 2023 and sales to local refineries on an ad hoc basis. Turkish officials stated that the ITP was ready to resume operations as of October 4, 2023. The readiness and willingness of the Iraqi side to supply oil into the pipeline remains subject to ongoing negotiations between the Government of Iraq, the Kurdistan Regional Government (“KRG”) and International Oil Companies (“IOCs”) operating in the KRI.

Uncertainty remains regarding the timing and viability of payments by the KRG for accounts receivable from past oil sales. As a result, the Company has adjusted the credit loss provision to reflect this uncertainty; refer to Note 12 for additional information. The Company (together with other IOCs) is still discussing the appropriate recovery mechanism for these receivables with the KRG, but full recovery is expected based on past precedents.

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

For the three months ended March 31, 2024

Expressed in thousands of United States dollars

Considering the impact of all of the above, and including the current local sales commitments, the Company expects to have sufficient cash in the next 12 months to fund its costs. However, if the ITP remains closed, local sales do not continue and there is no recovery of the KRG receivables, the Company could require additional liquidity to fund the remaining 2025 Bond obligations that, as of March 31, 2024, consist of \$41.9 million in interest and \$255 million in principal payments. The possibility that the Company's financial resources are insufficient to meet its debt obligations indicates a material uncertainty that may cast significant doubt over the Company's ability to continue as a going concern. Therefore, the Company might be unable to realize its assets and discharge its liabilities in the normal course of business. These unaudited condensed interim consolidated financial statements do not include the adjustments that would result if the Company were unable to continue as a going concern.

c. Significant accounting policies

These unaudited condensed interim consolidated financial statements have been prepared following the same accounting policies and methods of application as those in the Company's audited annual consolidated financial statements for the year ended December 31, 2023.

3. Critical accounting judgments and key sources of estimation uncertainty

Areas of critical accounting judgments that have the most significant effect on the amounts recognized in the financial statements are disclosed in Note 4 of the Company's audited consolidated financial statements for the year ended December 31, 2023.

Refer to Note 2b for additional information.

4. Business and geographical segments

The Company operates in one business segment, oil and gas exploration and production, in one geographical segment, the KRI. As a result, in accordance with *IFRS 8: Operating Segments*, the Company has presented its financial information collectively for one operating segment.

5. Revenues

As discussed in Note 2b, the ITP has been closed since March 25, 2023. The revenues recorded since this date relate entirely to oil sold to local refineries from the Sarsang Block since April 2023 and from the Atrush Block since November 2023. These sales are *ad hoc* and vary in quantity from week to week but are expected to continue on an *ad hoc* basis until ITP exports resume. Prices for crude oil sales to local refineries are in line with the local market and at a significant discount to international benchmark prices.

Gross oil sales in the first quarter of 2024 were 5.2 million barrels ("MMbbls") (2023: 5.9 MMbbls), and the Company's entitlement share was approximately 0.6 MMbbls (2023: 0.7 MMbbls), which was sold with an average net oil price of \$36.49 per barrel (2023: \$60.53).

Refer also to Note 12.

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

For the three months ended March 31, 2024

Expressed in thousands of United States dollars

6. Cost of goods sold

Lifting costs are comprised of the Company's share of expenses related to the production of oil from the Atrush and Sarsang blocks, including operation and maintenance of wells and production facilities, insurance and the respective operator's related support costs as charged to the Company. The decrease in the first quarter of 2024 lifting costs compared to the first quarter of 2023 was mainly due to reduced production and cost savings following the ITP closure.

Other costs of production include the Company's share of other costs prescribed under the PSCs.

Oil and gas assets are depleted using the unit of production method based on proved and probable ("2P") reserves using estimated future prices and costs and accounting for future development expenditures necessary to bring those reserves into production.

Refer also to Notes 5 and 11.

7. General and administrative expense

General and administrative expenses principally include the Company's cost of technical and administrative personnel, travel, office, business development and stock exchange listing and regulatory related costs.

8. Finance income

	For the three months ended March 31,	
	2024	2023
Interest on Company-owned bonds	402	931
Interest on bank deposits	855	992
Total interest income	1,257	1,923
Foreign exchange gain	63	-
Total finance income	1,320	1,923

Refer also to Note 14.

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

For the three months ended March 31, 2024

Expressed in thousands of United States dollars

9. Finance cost

	For the three months ended March 31,	
	2024	2023
Interest/amortization charges on bonds	8,751	9,723
Amortization of the related-party loan	542	497
Total borrowing costs	9,293	10,220
Lease interest expense	5	1
Unwinding discount on decommissioning provision	4	(103)
Re-measurement of contingent consideration	(147)	138
Total finance costs before borrowing costs capitalized	9,155	10,256
Borrowing costs capitalized	(600)	(556)
Total finance cost	8,555	9,700

Interest and amortization charges relate to the Company's \$300 million bond, which has a 4-year tenor maturing in July 2025 and a 12% fixed, semi-annual coupon (the "2025 Bond"). The 2025 Bond amortizes by \$22.5 million semi-annually starting in July 2023, and the current outstanding amount is \$255 million following the January 2024 amortization.

Refer to Note 15 regarding the related-party loan, and also to Note 16 regarding the contingent consideration and decommissioning provision.

Borrowing costs directly attributable to the preparation of development assets for their intended use have been capitalized together with the related oil and gas assets. All other borrowing costs are recognized in the income statement in the period in which they are incurred.

10. Taxation

The Company's income tax expense relates to income tax on service income generated in Switzerland and to withholding tax on the intercompany transactions from Denmark.

11. Property, plant and equipment

PP&E principally comprises development costs related to the Company's share of the Atrush PSC and the fair value of the Company's share of the Sarsang PSC 2P reserves as estimated by the Company's independent qualified reserves evaluator, McDaniel & Associates Consultants Ltd., plus development costs related to the Company's share of the Sarsang PSC since the acquisition.

During the first quarter of 2024, movements in PP&E comprised of general additions of \$2.8 million (2023 full year: \$25.8 million), which included capitalized borrowing costs of \$0.6 million (2023 full year: \$3.2 million), net of depletion and depreciation expense of \$10.2 million (2023 full year: \$26.0 million), that resulted in a net decrease to PP&E assets of \$7.4 million.

Refer also to Note 6.

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

For the three months ended March 31, 2024

Expressed in thousands of United States dollars

12. Accounts receivable

At March 31, 2024, the Company had receivables outstanding as follows:

	At March 31, 2024	At December 31, 2023
Accounts receivable on oil sales	91,645	95,474
Credit Loss Provision – transportation costs	(3,695)	(3,695)
Credit Loss Provision	(14,648)	(17,445)
Total accounts receivable, net of provisions	73,302	74,334
Current portion	46,583	38,913
Non-current portion	26,719	35,421

The accounts receivable on oil sales at March 31, 2024, mainly relates to deliveries to the KRG from October 2022 through March 2023. The Company continues to discuss the recovery of these receivables with the KRG, but timing is uncertain (refer to Note 2b). The Company has reassessed the credit loss provision and has compared the carrying value of the relevant trade receivables with the present value of the estimated future cash flows based on reasonable recovery scenarios, weighted by the relative probability of these potential outcomes. A relevant discount rate has been applied to reflect counterparty credit risk to provide a reasonable approximation of the fair value of these trade receivables at March 31, 2024. The result of the Company's assessment under IFRS 9 is a \$2.8 million adjustment to these trade receivables in the first quarter of 2024, included in the statement of comprehensive income. The portion of these receivables that is estimated to be received post the first quarter of 2025 is classified as non-current owing to uncertainty in timing of recovery.

A full provision was made during 2022 to account for a possible increase in transportation and access fees of \$3.7 million. According to the KRG, these costs were added as a result of increased pipeline fees and other tariffs. This increase has yet to be agreed between the parties and relates to oil sales prior to September 1, 2022.

Refer also to Note 5.

13. Accounts payable and accrued expenses

	At March 31, 2024	At December 31, 2023
Payables to joint-operations partners	4,830	5,997
Trade payables	663	921
Accrued expenses	609	1,129
Total accounts payable and accrued expenses	6,102	8,047

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For the three months ended March 31, 2024

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14. Borrowings

The Company's 2025 Bond is partially amortized in instalments, with \$22.5 million due every six months starting in July 2023, and the remaining balance due at maturity in July 2025.

At December 31, 2023, the Company owned \$28.4 million of its 2025 Bond. In January 2024, \$22.5 million of these bonds were cancelled to satisfy the 2025 Bond amortization obligation. At March 31, 2024, the Company held \$5.9 million of its own 2025 Bond.

At March 31, 2024, the outstanding principal of the 2025 Bond was \$255 million, and \$25.3 million of restricted cash was held in a Debt Service Retention Account pledged to the Bond Trustee.

The movements in borrowings are explained as follows:

	At March 31, 2024	At December 31, 2023
Opening balance:	257,255	269,145
Interest/amortization charges	8,751	38,707
Own bonds cancelled	22,500	2,303
Bond amortization	(22,500)	(22,500)
Payments to bondholders – interest	(16,650)	(30,400)
Ending balance	249,356	257,255
Non-current portion – net borrowings	193,746	193,746
Current portion – amortization instalments	45,000	45,000
Current portion – accrued bond interest expense	10,610	18,509

Refer also to Note 9.

15. Loan from related party

The loan balance with the related party Nemesia S.à.r.l. ("Nemesia") is \$15.6 million with repayment due on January 30, 2026, six months after maturity of the 2025 Bond. This loan is subordinated to all obligations under the Company's 2025 Bond terms. The interest rate on the Nemesia loan is 12% per annum payable in cash semi-annually, plus an additional interest amount of 2% per annum payable in kind at maturity.

The 2024 movements in the Nemesia loan balance are explained as follows:

	At March 31, 2024	At December 31, 2023
Opening balance	16,723	16,175
Amortization	541	2,129
Payment to Nemesia – interest	(936)	(1,581)
Ending balance	16,328	16,723

Refer also to Notes 9 and 21.

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

For the three months ended March 31, 2024

Expressed in thousands of United States dollars

16. Provisions

	At March 31, 2024	At December 31, 2023
Opening balance	16,585	22,077
Changes in estimates and obligations incurred	558	469
Unwinding discount on decommissioning provision	4	(76)
Changes in discount and inflation rates	(421)	(5,885)
Total decommissioning and site restoration provisions	16,726	16,585
Contingent consideration	11,107	11,254
Total provisions	27,833	27,839

The decommissioning and site restoration provision relates to the Company's share of future costs in respect of the Company's 27.6% interest in the Atrush Block and 18% interest (22.5% paying interest) in the Sarsang Block. The provision assumes these works will commence in 2032 for Atrush and in 2034 for Sarsang.

The contingent consideration relates to the purchase consideration of the Sarsang Acquisition and is payable to the seller upon (i) cumulative gross oil production from the Sarsang PSC reaching 130 MMbbls and (ii) Brent crude oil prices averaging at least \$60/bbl for the preceding twelve-month period. The Company estimates the fair value of this contingent consideration at the end of each quarter and treats any difference as a finance income/cost.

Refer also to Note 9.

17. Share capital

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

	Number of shares	Share capital
At December 31, 2022	2,808,850,904	670,250
RSU Shares issued	14,954,253	848
Option Shares issued	557,000	38
At December 31, 2023	2,824,362,157	671,136
RSU Shares issued	3,086,670	129
At March 31, 2024	2,827,448,827	671,265

During the first quarter of 2024, a total of 3,086,670 Restricted Share Units ("RSUs") vested in accordance with the Company's Share Unit Plan (2023 full year: 14,954,253 RSUs and 557,000 options), and an equivalent number of the Company's shares were issued to plan participants. The carrying value of the RSU shares has been determined based on the Company's average closing share price over the five-day period prior to the vesting date.

Refer also to Note 18.

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18. 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. At March 31, 2024, a total of 190,375,087 shares (7% of issued share capital) had been granted of the possible 282,744,882 shares that could be granted under the plans. 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 plans, the Company may grant stock options, performance share units, RSUs and deferred share units ("DSUs").

In the first quarter 2024, the Company granted 26,540,000 stock options, 41,110,000 RSUs and 5,239,369 DSUs (2023: no share-based payments were granted in the first quarter).

In the first quarter 2024, a total of 3,086,670 RSUs vested, an equivalent number of shares were issued to plan participants, and 1,475,335 DSUs were redeemed in cash owing to the end of service of a plan participant (2023: 11,880,002 RSUs vested, 557,000 stock options were exercised, and an equivalent number of shares were issued to plan participants).

The result of the movements in the first quarter of 2024 are charges to the Statement of Comprehensive Income for options of \$433 thousand (2023: \$158 thousand), for RSUs \$168 thousand (2023: \$239 thousand) and for DSUs \$396 thousand (2023: \$(175) thousand). The carrying amount of the DSU liability at March 31, 2024, is \$901 thousand (December 31, 2023: \$565 thousand).

A summary of movements in the Company's outstanding options and share units is below:

	Number of stock options outstanding	Number of RSUs outstanding	Number of DSUs outstanding
At December 31, 2023	80,863,000	24,600,002	16,584,721
Granted in the period	26,540,000	41,110,000	5,239,369
DSUs redeemed			(1,475,335)
RSUs vested	-	(3,086,670)	-
At March 31, 2024	107,403,000	62,623,332	20,348,755
Quantities vested and unexercised:			
At December 31, 2023	44,261,337	-	16,584,721
At March 31, 2024	55,683,008	-	20,348,755
Weighted average remaining contractual life of options:			
At December 31, 2023	3.5 years		
At March 31, 2024	3.7 years		

The Company recognizes compensation expense on stock options granted to both employees and non-employees using the fair value method at the date of grant. The share-based payments expense for these options 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 stock options.

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

For the three months ended March 31, 2024

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19. Financial instruments

Financial assets

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

	Fair value hierarchy ⁶	Carrying and fair values ¹	
		At March 31, 2024	At December 31, 2023
Accounts receivable ⁵	Level 3	73,302	74,334
Cash and cash equivalents, unrestricted ²	Level 1	46,231	48,881
Cash and cash equivalents, restricted ²	Level 1	25,324	22,841
Other receivables ²	Level 2	353	1,789
Total financial assets		145,210	147,845

Financial assets classified as other receivables are initially recognized at fair value and are subsequently measured at amortized 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 ⁶	Carrying values	
		At March 31, 2024	At December 31, 2023
Borrowings ³	Level 2	238,746	238,746
Accrued interest on bonds	Level 1	10,610	18,509
Related-party loan ⁴	Level 2	16,328	16,723
Accounts payable and accrued expenses ²	Level 2	6,102	8,047
Current tax liabilities	Level 2	-	86
Total financial liabilities		271,786	282,111

Financial liabilities are initially recognized at the fair value of the amount expected to be paid and are subsequently measured at amortized 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, owing to the short-term nature, are readily convertible to or settled with cash and cash equivalents.

³ The Company estimates the fair value of its net borrowings (the gross outstanding amount of the 2025 Bond less Company-owned 2025 Bonds) at the balance sheet date is \$232.9 million (December 31, 2023: \$225.4 million) based on recent trades of the Company's bonds and indicative pricing provided by brokers.

⁴ The Company estimates the fair value of its related-party loan at the balance sheet date is \$15.6 million based on its nominal value (December 31, 2023: \$15.6 million).

⁵ Provisions have been made to the accounts receivable; refer to Note 12 for additional information.

⁶ *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; and
- Level 3: fair value measurements are derived from valuation techniques that include inputs that are not based on observable market data.

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

For the three months ended March 31, 2024

Expressed in thousands of United States dollars

20. Commitments and contingencies

At March 31, 2024, the outstanding commitments of the Company were as follows:

	For the year ended March 31,				Total
	2025	2026	2027	Thereafter	
Atrush and Sarsang block development and PSC	23,676	166	166	992	25,000
Sarsang contingent consideration	-	-	-	15,000	15,000
Corporate office and other	32	-	-	-	32
Total commitments	23,708	166	166	15,992	40,032

Amounts relating to Atrush and Sarsang block developments represent the Company's unfunded paying interest share of the proposed 2024 work program and other obligations under the PSCs. The capital expenditure commitments in the work plan and budgets are contingent upon continuation of local sales.

For further information regarding the Sarsang contingent consideration, refer to Note 16.

21. Related-party transactions

Transactions with corporate entities

	Purchase of services in the three months ended March 31,		Current amounts owing at the balance sheet dates	
	2024	2023	March 31, 2024	December 31, 2023
Nemesia	542	459	728	1,123
Lundin Foundation	55	65	-	-
International Petroleum Corp.	23	-	25	31
Namdo Management Services Ltd.	22	8	24	-
Orrön Energy AB	10	-	5	-
Total	652	532	782	1,154

Nemesia is a company controlled by a trust settled by the estate of the late Adolf H. Lundin and is a shareholder and bondholder of the Company. The Company has a subordinated loan from Nemesia and the obligation to accrue 12% annual interest payable in cash semi-annually plus an additional interest amount of 2% per annum payable in kind based on the principal balance outstanding. Refer also to Note 15.

Lundin Foundation is a non-profit organization, of which the Company is a member, that provides services for Lundin Group companies.

International Petroleum Corp., Namdo Management Services Ltd. and Orrön Energy AB are companies affiliated with shareholders of the Company and provide corporate, technical and administrative support services to the Company.

All transactions with related parties are conducted in the normal course of business and are made on an arm's length basis as with all third parties.

Refer also to Note 9.

NON-EXECUTIVE DIRECTORS

Chris Bruijnzeels
Director, Chairman

Michael Ebsary
Director

Keith Hill
Director

William Lundin
Director

OFFICERS

Garrett Soden
Director, President and Chief Executive Officer

Elvis Pellumbi
Chief Financial Officer

Alex Lengyel
Chief Commercial Officer and
Corporate Secretary

INVESTOR RELATIONS

Robert Eriksson

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Geneva, Switzerland

TRANSFER AGENT

Computershare Trust Company of Canada
Vancouver, Canada

STOCK EXCHANGE LISTINGS

Toronto: TSX Venture Exchange

Stockholm: NASDAQ First North
Growth Market

Trading Symbol: SNM