ShaMaran petroleum corp

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Financial Report

For the three and nine months ended September 30, 2021 (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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For the three and nine months ended September 30, 2021

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 November 9, 2021 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 and nine months ended September 30, 2021, together with the accompanying notes ("Financial Statements").

Company Overview

ShaMaran is in the business of developing and producing oil and gas. The Company has a 27.6% participating interest in the Atrush Block, Kurdistan Region of Iraq through its wholly owned subsidiary General Exploration Partners, Inc. ("GEP") and, upon the successful closing of the acquisition announced on July 12, 2021 with a TotalEnergies S.E. affiliate, the Company will then also have an 18% participating interest in the Sarsang Block, Kurdistan Region of Iraq through its then wholly-owned subsidiary TEPKRI Sarsang A/S.

The Company'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. The address of its registered office is 25th Floor 666 Burrard Street Vancouver, BC Canada V6C 2X8 and its business address is Suite 2000, 885 West Georgia Street, Vancouver, BC Canada V6C 3E8.

Basis of Preparation

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

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

Management's Discussion and Analysis

For the three and nine months ended September 30, 2021

THIRD QUARTER 2021 HIGHLIGHTS

The third quarter of 2021 has been even stronger than the previous quarter for ShaMaran. Continued production growth in the Atrush field and rising oil prices have again generated new record oil sale revenues for the Company this quarter and EBITDAX continues to substantially increase. During the quarter ShaMaran announced the Atrush production milestone achievement of 50 MMBbls, resulting in the Company incurring its final production bonus under the Atrush production sharing contract. The Company is currently in discussions with the KRG to offset the $6.4 million production bonus against the outstanding receivables owed to the Company from the KRG. In addition to the strengthening business in Atrush, the Company has taken transformative steps to substantially grow the Company with the signing of an agreement to acquire TEPKRI Sarsang A/S (the "TEPKRI Acquisition") and upon its successful closing will then hold an 18% participating interest (22.5% paying interest) in the Sarsang Block in Kurdistan Region of Iraq. Part of this growth plan includes the issuing and settlement of the Company's 2025 Bond that was successfully completed in the third quarter. This has resulted in additional financing costs in the quarter, demonstrating management's commitment to completion of the TEPKRI Acquisition. See below "Corporate Highlights".

ATRUSH HIGHLIGHTS

Financial:

	Three months ended September 30		Nine months ended September 30	
USD Thousands	**2021**	**2020**	**2021**	**2020**
Revenue	29,070	15,358	74,884	42,592
Gross margin on oil sales	12,020	3,952	37,227	(3,147)
Net result	19	(2,733)	9,322	(142,640)
Cash flow from operations	12,544	4,487	40,567	7,510
EBITDAX	16,017	8,707	47,919	13,438

- The third quarter of 2021 generated record oil sales revenue of $29 million and showed continuing low production costs. This was offset by key event related costs accounted for in the quarter, which were the final Atrush production bonus of $6.4 million, plus $3.9 million of additional financing costs and $0.8 million of additional legal costs relating to the TEPKRI Acquisition;
- A very strong EBITDAX of $16.0 million for the third quarter of 2021 and $47.9 million for the nine months of 2021, over 3 1/2 times the EBITDAX result for the nine months of 2020; and
- The KRG continues to repay the $41.7 million of outstanding receivables for November 2019 to February 2020. At the date of this MD&A $20.8 million has been invoiced to the KRG and $15.8 million has been paid. The Company is currently in discussions with the KRG to offset the $6.4 million production bonus against the outstanding receivables owed to the Company from the KRG.

Operational:

- The Atrush 50 million barrel cumulative production milestone was achieved in September 2021;
- Average production of approximately 41,273 barrels of oil per day ("bopd") for the third quarter of 2021;
- A planned partial shutdown of the Atrush central processing facility was initiated on November 1, 2021. This shutdown is required to perform routine maintenance activities and is expected to be completed during the second week of November, with full production to be resumed at that time. Due to this November shutdown, the Company anticipates that (i) the fourth quarter 2021 average daily production will be reduced from third quarter production levels and (ii) that the Atrush 2021 annual average daily production will likely be slightly below 39,000 bopd (the lower end of the Company's 2021 production guidance). The Company expects Atrush production to return to third quarter production levels again during first half of 2022; and
- The third quarter of 2021 lifting costs per barrel of $4.34 is an improvement to the 2021 guidance and a 3% decrease vs second quarter 2021 lifting costs due to improved operating efficiencies.

CORPORATE HIGHLIGHTS

- The Company announced on July 12, 2021 that it signed an agreement with a subsidiary of TotalEnergies S.E. for the TEPKRI Acqusition. The TEPKRI Acquisition has an effective date of January 1, 2021. The Company intends to finance the TEPKRI Acquisition through the issue of new debt, new equity, a vendor 12 month loan and by utilizing the Company's cash balance.
- On July 16, 2021 the Company announced the successful placement of a new $300 million bond, with a 4-year tenor due July 2025 and priced at 12% fixed semi-annual coupon (the "2025 Bond"). The proceeds from the 2025 Bond issue will be used to refinance $175 million of the currently outstanding $180 million bond, to refinance $7.2 million of existing subordinated debt, to partly finance the TEPKRI Acquisition announced July 12, 2021 and for general corporate purposes.

- On July 27, 2021 the Company announced that the proposals for the conditional refinancing of the existing bond (the "2023 Bond") as well as necessary waivers for the issuance of the 2025 Bond and other financial matters relating to the 2023 Bond were approved by the bondholders voting on the proposals.

- On July 30, 2021 the Company announced the issuance and settlement of the initial issue of the 2025 Bond in the amount of $111.5 million. Proceeds from this initial issue will be used to pay a portion of the purchase price of the TEPKRI Acquisition and have been placed into escrow subject to release following the satisfaction of conditions precedent to completion of the TEPKRI Acquisition. Also, on this date the Company entered into an agreement with Nemesia S.à.r.l. ("Nemesia") (a private company ultimately controlled by a trust the settlor of which is the Estate of the late Adolf H. Lundin) to underwrite the planned $30 million rights offering in the coming months referred to in the Company's news release of July 12, 2021.

- Upon the successful closing of the TEPKRI Acquisition, the additional interest in Sarsang block:
  (i) adds immediate incremental participating interest production of approximately 5,000 bopd of light crude oil (36-38° API);
  (ii) is expected to double ShaMaran's Q2 2021 average net production, exceeding 20,000 bopd, following the completion of the processing facility expansion at Swara Tika field by third quarter of 2022; and
  (iii) enhances ShaMaran's oil reserves through the addition of high API and low sulphur oil that achieves a low discount to Brent.

OPERATIONS REVIEW

Business Overview

The third quarter of 2021 has seen a continuation of relatively improving market conditions for oil producers. Average Brent oil price for the third quarter of this year was $73.02/bbl vs. $66.25/bbl average price for the second quarter. In addition, S&P Global Platts Analytics have forecast that Brent will average in the "upper $70s" during the fourth quarter of 2021. Crude oil prices may likely receive additional support from increasing global economic activity, including an increase in aviation travel, together with increasing vaccinations throughout the world against COVID-19 and a corresponding decrease in global COVID-19 cases.

ShaMaran as part of the Atrush joint venture has begun implementing a gas solution to meet its commitment to bettering the environment in Kurdistan.

Upon the successful closing of the TEPKRI Acquisition (now expected in the first quarter of 2022), ShaMaran will effective as of January 1, 2021 (i) transform ourselves from being a single asset company into a company with three world class producing oil fields (Atrush, Swara Tika and East Swara Tika) with improved oil qualities and complimentary production horizons, (ii) improve our financial metrics and (iii) assuming oil prices continue at current levels as forecast by numerous analysts, by end of 2022 we expect a significant cashflow increase from our three oil fields.

ShaMaran continues our cautiously optimistic view that current oil prices will be sustained throughout the remainder of 2021 despite uncertainties in the global market. The Company remains focused on completing the TEPKRI Acquisition and will continue to maintain our financial discipline. We are very well positioned to further grow the Company as new market opportunities present themselves in Kurdistan and elsewhere.

Together with the risks disclosed in the Company's Annual Information Form dated March 3, 2021, management has not identified other trends or events that are expected to have a material adverse effect on the financial performance of the Company.

For additional background and history on the Company's Atrush ownership, please refer to the Company's Annual Information Form for the year ended December 31, 2020 , which is available for viewing both on the Company's website at www.shamaranpetroleum.com and on SEDAR at www.sedar.com, under the Company's profile.

Operations Overview

COVID-19 Response

The COVID-19 Atrush action plan, originally implemented in February 2020 and augmented through the addition of multiple quarantine stages for Atrush site arrivals as well as Erbil office staff, has been maintained through Q3 2021 ensuring the continued safety and security of Atrush operations staff and contractors. The KRG vaccination program, launched on March 4, 2021 and now receiving approximately 100,000 doses each week, has effectuated full vaccination of approximately 15% of the eligible population with another 20% having received the first dosage.

Operational impacts of the COVID-19 pandemic are being successfully managed to minimize any negative impact on field operations and production outlook.

Reserves and Resources

On February 15, 2021, the Company reported estimated reserves and contingent resources for the Atrush field as at December 31, 2020, as reported by the Company's independent reserves and resources evaluator, McDaniel.

Total field proven plus probable ("2P") reserves on a Company gross basis for Atrush increased from 29.9 million barrels reported as at December 31, 2019, to 30.3 million barrels as at December 31, 2020, being a 108% reserves replacement.

Total field unrisked best estimate contingent oil resources ("2C")[1] on a Company gross basis for Atrush decreased from the 2019 estimate of 67.2 million barrels to 60.6 million barrels as at December 31, 2020.

Total discovered oil in place in the Atrush block is a low estimate of 1.7 billion barrels, a best estimate of 2.0 billion barrels and a high estimate of 2.3 billion barrels.

For more information on reserves and resources, please reference our Form 51-101 F1 Statement of Reserves Data and Other Oil and Gas Information as at December 31, 2020 and available in the Company's profile on SEDAR at www.sedar.com.

Production

	Three months ended Sep 30		Nine months ended Sep 30	
	2021	2020	**2021**	2020
Atrush average daily oil production – gross 100% field (Mbopd)	41.3	46.1	39.7	46.6
Atrush oil sales – gross 100% field (Mbbl)	3,797	4,244	10,834	12,756
ShaMaran's entitlement in Atrush oil sales (Mbbl)	504	563	1,438	1,660

Atrush production for Q3 2021 was down 10% over Q3 2020 due to the long term effects of the suspension of most of the capital programs in 2020. Due to the resumption of capital programs in 2021, Atrush production has increased by approximately 6% in Q3 2021 compared to Q2 2021 (and at the date of this MD&A has increased by 8% compared to Q1 2021). ShaMaran's entitlement in oil sales in Q3 2021 was down 11% compared to Q3 2020 due to the impacts of decreased capital investment and well interventions, as mentioned above.

Operational Outlook

With continuing improvement in oil prices in 2021 the Company anticipates a continuation of strong operating cash flow that will be supported with prudent capital deployment in the year. The Company updates the guidance for 2021 provided in its news release of February 15, 2021, as follows:

- Resumption of suspended 2020 capital program with Atrush capital expenditures for 2021 planned at $53.2 million ($14.7 million net to ShaMaran). This capital program includes:
  - The drilling and completion, on time and under budget, of a side-track CK-17 well to recover from the upper Jurassic reservoir; and
  - Initiation of the gas solution project which will significantly reduce emissions by using existing infrastructure to generate electrical power from produced gas. As the Atrush field is currently dependant on rented diesel-fuelled generators for all electrical power, this project will also therefore greatly reduce future operating costs.
- As a result of the partial shutdown of the Atrush central process facility in November 2021, the Atrush 2021 annual average daily production will likely be slightly below 39,000 bopd (the lower end of the range issued in the Company's news release on February 15, 2021);
- Atrush operating expenditure is forecast to be $80 million ($22 million net to ShaMaran) for 2021, in line with 2020 actual operating costs despite significant increase in field activity vs. 2020; and
- Atrush average lifting costs per barrel are estimated to range from $4.70 to $5.70. Atrush lifting costs are mainly fixed costs and dollar-per-barrel estimates should decrease with increasing levels of production and operational efficiencies.

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

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)	Q3 2021	Q2 2021	Q1 2021	Q4 2020	Q3 2020	Q2 2020	Q1 2020	Q4 2019
Continuing operations:								
Revenue	**29,070**	25,208	20,606	14,081	15,358	7,393	19,841	24,345
Cost of goods sold	**(17,050)**	(10,255)	(10,352)	(3,828)[2]	(11,406)	(13,562)	(20,771)	(14,071)
General and admin expense	**(1,844)**	(1,804)	(1,543)	(2,115)	(1,678)	(2,512)	(1,876)	(2,975)
Share based payments	**(198)**	(469)	(665)	(258)	(283)	(406)	(716)	(205)
Depreciation and amortization	**(56)**	(55)	(57)	(54)	(52)	(50)	(49)	(46)
Impairment loss	**-**	-	-	-	-	-	(116,164)	-
Impairment loss – Trade receivables	**-**	-	-	(3,201)	-	-	-	-
Finance cost	**(9,904)**	(6,054)	(6,167)	(6,441)	(4,654)	(5,469)	(5,479)	(5,507)
Finance income	**9**	276	669	2	-	1	34	71
Income tax expense	**(8)**	(13)	(22)	29	(18)	(26)	(31)	(26)
Net income / (loss)	**19**	**6,834**	**2,469**	**(1,785)**	**(2,733)**	**(14,631)**	**(125,211)**	**1,586**
EBITDAX	**16,017**	18,402	13,500	6,614	8,707	(1,882)	6,613	14,833
Basic and diluted net inc / (loss) in $ per share	**-**	0.003	0.001	(0.001)	(0.001)	(0.007)	(0.058)	0.001

Earnings before interest, tax, depreciation, amortisation, and exploration expense ("EBITDAX")[3] 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 Third Quarter Financial Information

The $19 thousand net income in Q3 2021 was primarily driven by the increased gross margin due to higher oil prices and increased production being reduced by accounting treatment for the production bonus, in cost of goods sold, and additional financing costs incurred relating to the TEPKRI Acquisition. The income and expenses in the third quarter are explained in more detail in the following sections. The Company generated a strong $16.0 million of EBITDAX in the third quarter of 2021, as shown in the following table, underlining the capacity of the Company to generate positive operational cash.

EBITDAX - Non-IFRS Measures

	Three months ended September 30		Nine months ended September 30	
USD Thousands	2021	2020	2021	2020
Revenues	29,070	15,358	74,884	42,592
Lifting costs	(4,551)	(4,650)	(13,868)	(17,875)
Other costs of production	(6,460)	(40)	(6,574)	(3,808)
General and administrative expense	(1,844)	(1,678)	(5,191)	(6,066)
Share based payments	(198)	(283)	(1,332)	(1,405)
EBITDAX	**16,017**	**8,707**	**47,919**	**13,438**

[2] The exceptionally low depletion costs in Q4 2020 are due to a positive adjustment made to cumulative depletion for the increase in reserves at 2020 year-end which spread depletion costs over an increased number of barrels.

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

Gross margin on oil sales

USD Thousands	Three months ended September 30 2021	Three months ended September 30 2020	Nine months ended September 30 2021	Nine months ended September 30 2020
Revenue from Atrush oil sales	29,070	15,358	74,884	42,592
Lifting costs	(4,551)	(4,650)	(13,868)	(17,875)
Other costs of production	(6,460)	(40)	(6,574)	(3,808)
Depletion costs	(6,039)	(6,716)	(17,215)	(24,056)
Cost of goods sold	**(17,050)**	**(11,406)**	**(37,657)**	**(45,739)**
Gross margin on oil sales	**12,020**	**3,952**	**37,227**	**(3,147)**

Revenue from Atrush oil sales relates to the Company's entitlement share of oil sales from the Atrush Block. The increase in revenues in Q3 2021 as compared to Q3 2020 were driven by higher average net oil prices, slightly offset by lower average daily production (41.3 Mbopd vs 46.1 Mbopd). Q3 2021 production was sold at an average net oil price of $57.68 per barrel after deducting $15.78 per barrel average discount for oil quality and transportation costs which compares, respectively, to $27.26 and $15.78 for oil sales made in Q3 2020. The higher oil prices resulted in increased revenues of $15.3 million which was partly offset by $1.6 million of negative impact on revenues due to lower production.

Lifting costs are comprised of the Company's share of expenses related to the production of oil from the Atrush Block including operation and maintenance of wells and production facilities, insurance, and the Operator's related support costs. The average lifting cost per barrel of Atrush oil produced was $4.34 per barrel in Q3 2021 (Q3 2020: $3.97 per barrel). The increase per barrel related to spreading the fixed operating costs over the larger production volume in Q3 2020 which was 11% more than in Q3 2021.

Other costs of production include the Company's share of production bonuses and other costs prescribed under the Atrush PSC. Other costs of production in Q3 2021 included $6.44 million for the Company's share of the production bonus related to cumulative oil production from Atrush of 50 million barrels which was reached in September 2021. During 2020 the production bonus in Q1 2020 for $3.7 million related to cumulative oil production from Atrush of 25 million barrels which was reached in February 2020.

Depletion costs per entitlement barrel in Q3 2021 was $11.99 (Q3 2020: $11.92).

Gross margin on oil sales was significantly higher in Q3 2021 despite incurring the production bonus in Q3 2021, this is mainly due to increased oil prices.

General and administrative expense

USD Thousands	Three months ended September 30 2021	Three months ended September 30 2020	Nine months ended September 30 2021	Nine months ended September 30 2020
Legal, accounting and audit fees	824	106	1,403	717
Salaries and benefits	578	796	1,961	2,405
Management and consulting fees	186	560	1,045	2,251
General and other office expenses	177	128	461	335
Listing costs and investor relations	51	76	264	252
Travel expenses	28	12	57	106
General and administrative expense	**1,844**	**1,678**	**5,191**	**6,066**

The overall increased general and administrative expense incurred in Q3 2021 compared to Q3 2020 was principally due to additional legal costs relating to the TEPKRI Acquisition. The nine months of 2021 includes $1.4 million of additional costs relating to the TEPKRI Acquisition. Salaries and benefits remain less in 2021 compared to 2020 due to reduced personnel. Management and consulting fees were particularly high in 2020 due to the Company actively reviewing its corporate strategy and solving its potential liquidity problem with the assistance of various outside consultants over the course of that year. The increase in general and other office expenses in the three and nine months of 2021 compared to 2020 is due to an increase in director and officer liability insurance costs.

Share based payments expense

USD Thousands	Three months ended September 30		Nine months ended September 30	
	2021	**2020**	**2021**	**2020**
Option expense	123	218	541	1,071
RSU expense	90	5	407	215
DSU expense / (recovery)	(15)	60	384	119
Total share-based payments	**198**	**283**	**1,332**	**1,405**

The share-based payments expense relates to the vesting of stock options, granted deferred share units ("DSUs") and restricted share units ("RSUs"). At September 30, 2021 there was in total 61,990,000 outstanding stock options (September 30, 2020: 60,610,000), 22,103,334 RSUs (September 30, 2020: 28,693,333) granted to certain senior officers and other eligible persons of the Company and 12,406,477 DSUs (September 30, 2020: 7,346,877) granted to ShaMaran's non-executive directors. Also refer to the discussion under the "Outstanding share data, share units and stock options" section below.

Depreciation and amortization expense

USD Thousands	Three months ended September 30		Nine months ended September 30	
	2021	**2020**	**2021**	**2020**
Depreciation and amortization expense	56	52	168	151

Depreciation and amortization expense correspond to cost of use of the office, furniture and IT equipment at the Company's technical and administrative offices located in Switzerland and Kurdistan.

Impairment loss

USD Thousands	Three months ended September 30		Nine months ended September 30	
	2021	**2020**	**2021**	**2020**
Impairment loss	-	-	-	116,164

Due to the significant decline in world oil prices at the end of the first quarter of 2020 IFRS required that the Company undertake an impairment assessment of the recoverability of the net book value of its oil and gas assets. Accordingly, in the first quarter 2020 the Company recorded a $48.5 million impairment loss on the book value of PP&E relating to the Company's Atrush 2P reserves base and a $67.6 million impairment loss on the book value of intangible exploration and evaluation costs relate to the Company's Atrush 2C resource base. Refer to the "Capital Expenditures on Property, Plant & Equipment" and "Capital Expenditures on Intangible Assets" sections below for additional information.

Finance income

USD Thousands	Three months ended September 30		Nine months ended September 30	
	2021	**2020**	**2021**	**2020**
Net gain from settlement of debt	-	-	792	-
Interest on deposits	4	-	14	3
Total interest income	**4**	**-**	**806**	**3**
Foreign exchange gain	5	-	82	-
Total finance income	**9**	**-**	**888**	**3**

The net gain on settlement of debt is due to the Company purchasing its 2023 Bonds in the market at commercially attractive rates, as permitted by the January 2021 amendment to the Bond terms, resulting in, as at September 30, 2021, a net gain on settlement of $0.792 million which is included in finance income in the income statement.

Finance cost

	Three months ended September 30		Nine months ended September 30	
USD Thousands	**2021**	**2020**	**2021**	**2020**
Interest charges on bonds at coupon rate	7,764	5,700	18,784	17,037
Call premiums	1,672	-	1,672	-
Amortization of the related party loan	648	542	1,865	542
Amortization of bond transaction costs	159	151	472	216
Bond remeasurement	-	(1,506)	-	(1,506)
Total borrowing costs	**10,243**	**4,887**	**22,793**	**16,289**
Foreign exchange loss	-	14	-	66
Lease – interest expense	5	4	15	8
Unwinding discount on decommissioning provision	(222)	(11)	(405)	3
Total finance costs before borrowing costs capitalized	**10,026**	**4,894**	**22,403**	**16,366**
Borrowing costs capitalized	(122)	(240)	(344)	(731)
Finance cost	**9,904**	**4,654**	**22,059**	**15,635**

Interest charges in the third quarter of 2021 include accrued interest on the initial issue amount of $111.5 million of the 2025 Bond. The call premium relates to the difference between the initial issue of $111.5 million principal amount and the gross cash proceeds of $109.8 million, as the 2025 Bond was issued at 98.5% of nominal value.

Borrowing costs directly attributable to the acquisition and preparation of Atrush development assets for their intended use have been capitalized together with the related Atrush oil and gas assets. The decrease in capitalized borrowing costs in 2021, compared to 2020, is due to a number of development projects having been completed for their intended use. 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" and "Loan from related party".

Income tax expense

	Three months ended September 30		Nine months ended September 30	
USD Thousands	**2021**	**2020**	**2021**	**2020**
Income tax expense	8	18	43	75

Income tax expense relates to provisions for income taxes on service income generated in Switzerland which is based on costs incurred in procuring the services.

Capital Expenditure

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

The net book value of PP&E is principally comprised of development costs related to the Company's share of Atrush PSC proved and probable reserves as estimated by McDaniel. The movements in PP&E are explained as follows:

	Nine months ended September 30, 2021			Year ended December 31, 2020		
USD Thousands	Oil and gas assets	Office equipment	Total	Oil and gas assets	Office equipment	Total
Opening net book value	**145,875**	**171**	**146,046**	**207,695**	**208**	**207,903**
Additions	18,075	2	18,077	9,520	2	9,522
Impairment	-	-	-	(48,550)	-	(48,550)
Depletion and depreciation expense	(17,215)	(52)	(17,267)	(22,790)	(39)	(22,829)
Net book value	**146,735**	**121**	**146,856**	**145,875**	**171**	**146,046**

During the first nine months of 2021 movements in PP&E were comprised of Atrush block development cost additions of $18.1 million (2020: $9.5 million), which included capitalized borrowing costs of $344 thousand (2020: $908 thousand), net of depletion of $17.3 million (2020: $22.8 million) and an impairment of $nil (2020: $48.6 million) which resulted in a net increase to PP&E assets of $0.8 million.

Due to a significant decline in world oil prices in the first quarter of 2020 the Company conducted an impairment test as at March 31, 2020 to assess if the net book value of its oil and gas assets was fully recoverable. This led to a non-cash impairment charge of $48.6 million which is included in the statement of comprehensive income for the prior year.

Capital Expenditures on Intangible Assets

The net book value of intangible assets at September 30, 2021 relates to computer software. The opening net book value in 2020 was principally comprised of exploration and evaluation ("E&E") assets which represented the Atrush Block exploration and appraisal costs related to the Company's share of Atrush Block contingent resources as estimated by McDaniel. The movements in Intangible assets are explained as follows:

	Nine months ended September 30, 2021			Year ended December 31, 2020		
USD Thousands	E&E assets	Software & Licences	Total	E&E assets	Software & Licences	Total
Opening net book value	**-**	**70**	**70**	**67,616**	**33**	**67,649**
Addition / (reversal)	-	7	7	-	51	51
Amortization expense	-	(26)	(26)	-	(14)	(14)
Impairment loss	-	-	-	(67,616)	-	(67,616)
Net book value	**-**	**51**	**51**	**-**	**70**	**70**

Due to a significant decline in world oil prices in the second quarter of 2020 the Company conducted an impairment test at March 31, 2020 to assess if the net book value of its E&E assets was recoverable. This led to a non-cash impairment charge of $67.6million which is included in the statement of comprehensive income for the prior year.

Financial Position and Liquidity

Loans and receivables

At September 30, 2021, the Company had loans and receivables outstanding as follows:

USD Thousands	At September 30, 2021	At December 31, 2020
Accounts receivable on Atrush oil sales	52,887	38,584
Atrush Exploration Costs receivable	18,549	32,686
Provision for impairment	(3,201)	(3,201)
Total loans and receivables	**68,235**	**68,069**

In November 2016 the Company entered into certain agreements with the KRG and other Atrush contractors for the reimbursement by the KRG to the Non-Government Contractors of certain costs incurred by KRG in the years 2013 through 2017 which were funded by the Atrush Non-Government Contractors. The Atrush Exploration Costs receivable, which relates to a share of the KRG's development costs paid for on behalf of the KRG by ShaMaran prior to the year 2016 which, for the purposes of repayment, are governed under the Atrush PSC and the related Facilitation Agreement. These costs are deemed to be Exploration Costs repaid through an accelerated petroleum cost recovery arrangement based on an agreed amount of the KRG's share of oil sales for each month's deliveries.

In December 2020 the KRG proposed a repayment mechanism for the $41.7 million owed to the Company for $34 million of deliveries from November 2019 to February 2020 and an additional $7.7 million of Atrush Exploration Costs receivable invoiced over the same period. This proposal stated that a mechanism will be in place for repayment of amounts owed once the Brent oil price is over $50 per barrel in any month and that various dues owed to the KRG will be offset against the amounts owed from the KRG. At December 31, 2020, the Company assessed the proposal, taking into account counterparty discounting and credit risk, and estimated the future cash flows of the trade receivables. Under IFRS 9 this resulted in a $3.2 million adjustment to these trade receivables included in the statement of comprehensive income for the year ended December 31, 2020. The repayment mechanism began in January 2021, terms were updated by the KRG in March, May, June and July 2021, and at the date of this MD&A $20.8 million has been invoiced to the KRG, and $15.8 million has been paid. The Company is currently in discussions with the KRG to offset the $6.4 million production bonus against the outstanding receivables owed to the Company from the KRG. The Company has reassessed the impairment provision made at 2020 year-end, with the updated terms, and the provision is still deemed appropriate at September 30, 2021.

In the period from the balance sheet date up to the date of this MD&A the Company had received $29.2 million in total payments for receivables balances outstanding at September 30, 2021, comprised of $20.8 million in total payments for its entitlement share of oil sales for the months of July and August 2021, $4 million in reimbursements of the Atrush Exploration Costs receivable and $4.4 million for outstanding receivables.

Borrowings

The ShaMaran 2023 Bond has one amortization due in December 2021 and carries 12% fixed semi-annual coupon and matures on July 5, 2023. At the date of this MD&A there was $180 million outstanding principal amount of the ShaMaran 2023 Bond. The 2023 Bond will be exchanged for ShaMaran 2025 Bond immediately following the successful completion of the TEPKRI Acquisition. The initial principal amount of $111.5 million of the 2025 Bond was issued on July 30, 2021. In total at September 30, 2021, there are $291.5 million of ShaMaran Bonds outstanding.

The Company has an obligation under the 2023 Bond Terms to make a Bond amortization payment of $15 million by December 2021, to reduce the outstanding principal amount of the 2023 Bond to $175 million. On January 26, 2021, the Company announced that the proposal had been approved by its bondholders to permit the Company to use its "free cash", in excess of $15 million, to buy back amounts of its 2023 Bond in the market, at the Company's discretion. The nominal amounts of the 2023 Bond so re-purchased will be retired by the Company. During the first nine months of 2021, the Company has re-purchased $10 million of 2023 Bond in the market at commercially attractive rates resulting in a net gain. The Company's 2023 Bond amortization payment due in December 2021 has accordingly been reduced from $15 million to $5 million ahead of schedule.

The 2020 amendment and restatement of the Bond Terms for the 2023 Bond included an amendment to provide for a put option in favor of the Bondholders to require that the Company purchase the 2023 Bond (at par plus accrued interest and the existing call premium) at any time on ten (10) business days' notice subject to the affirmative vote by holders of 50.01% of the 2023 Bond. As the put option in the amended Bond terms is outside of management's control all the borrowings are classified as current at September 30, 2021. Upon successful closing of the TEPKRI Acquisition this specified put option will no longer continue to exist following the exchange of the 2023 Bond for 2025 Bond and this borrowing will no longer need to be classified as current.

The movements in borrowings are explained as follows:

USD Thousands	At September 30, 2021	At December 31, 2020
Opening balance	**199,561**	**200,693**
2025 Bond issued	109,800	-
Interest charges at coupon rate	18,784	22,800
Call premium on 2025 Bond	1,672	-
Amortization of bond transaction costs	472	375
2023 Bond remeasurement	-	(1,505)
2023 Bond amount retired	(10,000)	-
Payments to 2023 Bondholders – interest and call premiums	(22,465)	(22,802)
Ending balance	**297,824**	**199,561**
Current portion: borrowings	290,360	188,416
Current portion: accrued bond interest expense	7,464	11,145

Loan from related party

In July 2020 the Company announced a full drawdown of the $22.8 million of Nemesia's liquidity guarantee followed by the full and final discharge of such liquidity guarantee by the Bond Trustee. With such drawdown, $11.4 million of the funds were used to pay in full and timely the 2023 Bond coupon interest payment due in July 2020 and the remaining $11.4 million were held as restricted cash and then used to pay in full and timely the next coupon interest payment in January 2021. In exchange for the drawdown of funds the Company is required to issue monthly to Nemesia 50,000 shares of ShaMaran for each $500 thousand drawn down and outstanding until the drawn amount is repaid in full together with interest (the "Loan Shares"). At the current $22.8 million drawdown amount the Company is required to issue to Nemesia 2,280,000 ShaMaran shares per month.

In accordance with *IFRS 9 Financial Instruments* the liquidity guarantee is a compound financial instrument which has two parts: a liability component and an equity component. The fair value of the liability component is presented on the balance sheet as "loan from related party". The fair value of the equity is presented on the balance sheet as "Loan Share reserve". As Nemesia are issued the Company shares each month the Loan Share reserve value is transferred into share capital on a straight-line basis. During 2021 $1,180 thousand (2020 $655 thousand) has been transferred into share capital.

The first nine months of 2021 movements in the liquidity guarantee loan balance are explained as follows:

USD Thousands	At September 30, 2021	At December 31, 2020
Opening balance	**19,214,595**	**-**
Amortization of the liability component	1,865,200	1,132,450
Cash received: full amount of the liquidity guarantee	-	22,800,000
FV of the equity component	-	(4,717,855)
Ending balance	**21,079,795**	**19,214,595**
Non-current liability: loan from related party	21,079,795	19,214,595

Upon successful closing of the TEPKRI Acquisition the terms of this loan from Nemesia will be amended and restated.

Liquidity and Capital Resources

USD Thousands	Nine months ended September 30 2021	2020
Selected liquidity indicators		
Cash flow from operations	40,567	7,510
Cash in bank	151,048	22,432
(Negative)/ Positive working capital	(87,370)	29,909

Cash flow from operations of $40.6 million for the nine months ended September 30, 2021 is up by $33.1 million from $7.5 million reported in the same period of 2020 principally due to $38 million from significantly improved oil prices (average netback price per entitlement barrel $52.07 compared to $25.66) which has more than offset the negative $5.7 million impact due to slightly less production in the six months (average daily production 39.7 Mbopd compared to 46.6 Mpopd).

Working capital at September 30, 2021 was negative $87.4 million compared to positive $29.9 million at September 30, 2020. The increase in negative working capital since September 30, 2020 is principally due to the payments for November 2019 through February 2020 oil sales of $27.1 million being classified as current receivables and all $290.4 million of borrowings being classified as a current liability.

The overall cash position of the Company increased by $122.6 million during the first nine months of 2021, as compared to the increase of $6.9 million during the same period of 2020. The main components of the movement in funds were as follows:

- The operating activities of the Company during the first nine months of 2021 resulted in an increase of $40.6 million in the cash position (2020: increase of $7.5 million). The change in cash from operations is explained by the net income of $9.3 million plus $31.3 million of net positive cash adjustments from working capital items.
- Net cash in from investing activities during the first nine months of 2021 were $4.1 million (2020: outflows of $0.5 million). Cash in from investing activities were comprised of $10.0 million out for the investments in the Atrush Block development work program net of cash inflows of $14.1 million in payments by the KRG of Atrush loans and receivables.
- Net cash inflows to financing activities in the nine months were $78.0 million (2020: cash outflows of $0.1 million) and comprised of the net proceeds received from the 2025 Bond $109.8 million (2020: $nil) offset by $22.5 million semi-annual interest payments to ShaMaran bondholders in January and July 2021 and $9.2 million for the purchase of bonds and related interest that were then retired.

The 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".

Off Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Transactions with Related Parties

USD Thousands	Purchase of services for periods ended September 30, three months 2021	2020	nine months 2021	2020	Amounts owing at the balance sheet dates September 30, 2021	December 31, 2020
Nemesia	680	534	2,029	534	1,543	690
Namdo Management Services Ltd	9	13	25	37	-	-
Total	**689**	**547**	**2,054**	**571**	**1,543**	**690**

Nemesia is a company controlled by a trust settled by the estate of the late Adolf H. Lundin and is a shareholder of the Company. The Company has an obligation to issue shares each month to Nemesia based on the $22.8 million outstanding amount owed by the Company to Nemesia that accrues 5% interest based on the principal balance outstanding.

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

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

Outstanding Share Data, Share Units and Stock options

Common shares

The Company had 2,208,509,663 outstanding shares at September 30, 2021, 2,305,009,474 outstanding shares after dilution and 2,213,069,663 outstanding shares at the date of this MD&A.

Details of share issuance in the first nine months of 2021 and since September 30, 2021 are as follows:

- 20,520,000 common shares were issued to Nemesia, and a further 4,560,000 up to the date of this MD&A, in accordance with the loan repayment terms between the Company and Nemesia. The carrying value of the shares has been determined based on the total loan share reserve value and is amortized over the three-year life of the loan. See "loan from related party".
- 12,121,462 Restricted Share Units ("RSUs") vested in accordance with the Company's Share Unit Plan and were issued to grantees. The carrying value of the RSU Shares 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

The Company has established share unit plan and a stock 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 September 30, 2021, a total of 96,499,811 shares, 4% of issued share capital, had been granted of the possible 220,850,966 shares that could be granted under the plans. Under the share unit plan the Company may grant performance share units ("PSU"), and restricted share units ("RSU"). As at September 30, 2020 and the date of this MD&A there are no PSUs outstanding. A deferred share unit ("DSU") plan exists for non-executive directors of the Company.

On March 8, 2021, the Company granted

(i) 8,950,000 RSUs to certain senior officers and other eligible persons of the Company at a grant date share price of CAD 0.051. In the first nine months of 2021 a total of 12,121,462 RSUs vested, and the same quantity of shares were issued to plan participants, 3,418,537 RSUs were cancelled or expired due to the end of service of plan participants The Statement of Comprehensive Income includes RSU related charges of $407 thousand (2020: $215 thousand) for the first nine months.

(ii) 5,059,600 of DSUs to non-executive directors at a grant share price of CAD 0.05. The Statement of Comprehensive Income includes DSU related charges of $384 thousand for the first nine months of 2021 (2020: $119 thousand). The carrying amount of the DSU liability at September 30, 2021 is $586 thousand.

(iii) 15,590,000 stock options to certain senior officers and other eligible persons of the Company at a strike price of CAD 0.05. In the first nine months of 2021 a total of 14,210,000 were cancelled due to the end of service of grantees. The Statement of Comprehensive Income includes option related charges of $541 thousand (2020: $1,071 thousand) for the first nine months.

At September 30, 2021 there were 61,990,000 stock options outstanding under the Company's employee incentive stock option plan. No stock options were exercised in 2021 (year 2020: nil).

The Company has no warrants outstanding.

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

	Number of share options outstanding	Number of RSUs outstanding	Number of DSUs outstanding
At December 31, 2020	**60,610,000**	**28,693,333**	**7,346,877**
Granted in the period	15,590,000	8,950,000	5,059,600
Expired/cancelled in the period	(14,210,000)	(3,418,537)	-
RSU Shares issued in the period	-	(12,121,462)	-
At September 30, 2021	**61,990,000**	**22,103,334**	**12,406,477**
Quantities vested and unexercised:			
At December 31, 2020	28,950,000	-	7,346,877
At September 30, 2021	43,069,995	-	12,406,477

Contractual Obligations and Commitments

Atrush Block Production Sharing Contract

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

As at September 30, 2021, the outstanding commitments of the Company were as follows:

	For the nine months ended September 30,				
USD Thousands	2022	2023	2024	Thereafter	Total
Atrush Block development	13,486	166	166	1,490	15,308
Corporate office and other	96	-	-	-	96
Total commitments	**13,582**	**166**	**166**	**1,490**	**15,404**

Amounts relating to Atrush Block development represent the Company's unfunded paying interest share of the approved 2021 work program and other obligations under the Atrush PSC.

Under the terms of the Atrush PSC the Company owes a share of production bonuses payable to the KRG when cumulative oil production from Atrush reaches production milestones defined in the Atrush PSC. The final production bonus payable is $23.3 million at the 50 million cumulative barrel production milestone (ShaMaran share: $6.4 million). This production milestone was achieved in September, 2021. The Company intends to offset the production bonus against the receivables outstanding from the KRG. The production bonuses represent an outflow of Company resources as an economic benefit to the KRG, rather than as an exchange for a service, and are therefore accounted for in accordance with IFRIC 21 Levies which requires that the obligation be recognized on the date at which the production milestone is reached.

Critical Accounting Policies and Estimates

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

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 which would indicate impairment include:

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

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

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

In 2021 all the Company's development activities are conducted jointly with others.

Risks in estimating resources

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

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

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

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

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

FINANCIAL INSTRUMENTS

The Company's financial instruments currently consist of cash, cash equivalents, advances to joint operations, other receivables, borrowings, related party loan, 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 loans and receivables which consist of fixed or determined cash flows related solely to principal and interest amounts or contractual sales of oil. The Company's intent is to hold these receivables until cash flows are collected. Financial assets at 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 which do not qualify as financial assets at amortized cost or at fair value through other comprehensive income. The Company does not currently have any financial assets measured at FVTPL.
- Financial Liabilities at Amortized Cost – Financial liabilities are measured at amortized cost using the effective interest method, unless they are required to be measured at FVTPL, or the Company has opted to measure them at FVTPL. Borrowings and accounts payable are recognized initially at fair value, net of any transaction costs incurred, and subsequently at amortized cost using the effective interest method.
- Financial Liabilities at FVTPL – Financial liabilities measured at FVTPL are liabilities which include embedded derivatives and cannot be classified as amortized cost. The Company does not currently have any financial liabilities measured at FVTPL.

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

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

Financial Risk Management Objectives

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

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

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

The Company does not hedge against commodity price risk.

Foreign currency risk is a risk due to the substantial portion of the Company's operations require purchases denominated in USD, which is the functional and reporting currency of the Company and the currency in which the Company maintains the substantial portion of its cash and cash equivalents. Certain of its operations require the Company to make purchases denominated in foreign currencies, which are currencies other than USD and correspond to the various countries in which the Company conducts its business, most notably, 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 insignificant amounts of foreign currencies at any point in time and since its volume of transactions in foreign currencies is currently relatively low. The Company has elected not to hedge its exposure to the risk of changes in foreign currency exchange rates.

Interest rate risk is a risk due to a 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 at the corporate level. However, the Company is not exposed to interest rate risks associated with its 2023 bonds and 2025 bonds as the interest rate is fixed.

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, loans 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 consolidated 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. In common 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's project moves further into the development stage, specific financing, including the possibility of additional debt, may be required to enable future development to take place. The financial results of the Company will impact its access to the capital markets necessary to undertake or complete future drilling and development programs. There can be no assurance that debt or equity financing, or future cash generated by operations, would be available or sufficient to meet these requirements or, if debt or equity financing is available, that it will be on terms acceptable to the Company.

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

RISK AND UNCERTAINTIES

ShaMaran is engaged in the development and production of crude oil and natural gas and its operations are subject to various risks and uncertainties which include but are not limited to those listed below. 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.

For more information on risk factors which may affect the Company's business refer also to the discussion of risks under the "Reserves and Resources" and "Financial Instruments" sections of this MD&A, as well as to the "Risk Factors" section of the Company's Annual Information Form, which is available for viewing both on the Company's web-site at www.shamaranpetroleum.com and on SEDAR at www.sedar.com under the Company's profile.

Impact of COVID-19 and potential variants

The Covid-19 virus and the restrictions and disruptions related to it have had a drastic adverse effect on the world demand for, and prices of, oil and gas as well as the market price of the shares of oil and gas companies generally, including ShaMaran's common shares. Even though 2021 has seen an improvement in the situation with a return to more normal business activities and the rollout of Covid-19 vaccinations throughout parts of the world, there can be no assurance that these adverse effects will not continue or that commodity prices will not decrease or remain volatile in the future. These factors are beyond the control of the Company and it is difficult to assess how these, and other factors, will continue to affect ShaMaran and the market price of ShaMaran's common shares. In light of the current situation, as at the date of this MD&A, the Company continues to review and assess its business plans and assumptions regarding the business environment, as well as its estimates of future production, cash flows, operating costs and capital expenditures.

The current and any future Covid-19 outbreaks of variants for which current vaccinations may no longer be effective may increase ShaMaran's exposure to, and magnitude of, each of the risks and uncertainties identified below that result from a reduction in demand for oil and gas consumption and/or lower commodity prices and/or reliance on third parties. The extent to which Covid-19 impacts ShaMaran's business, results of operations and financial condition will depend on future developments, which are highly uncertain and are difficult to predict, including, but not limited to, the duration and spread of the current and any future Covid-19 outbreaks, their severity, the actions taken to contain such outbreaks or treat their impact, and how quickly and to what extent normal economic and operating conditions resume and their impacts to ShaMaran's business, results of operations and financial condition which could be more significant in upcoming periods as compared with previous periods. Even after the Covid-19 outbreaks have subsided, ShaMaran may continue to experience materially adverse impacts to its' business as a result of the global economic impact. ShaMaran will continue to monitor this situation and work to adapt its business to further developments as determined necessary or appropriate.

ADDITIONAL INFORMATION

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

The Company plans to publish on or about March 3, 2022 its financial statements for the three and twelve months ended December 31, 2021.

OTHER SUPPLEMENTARY INFORMATION

Abbreviations

CAD	Canadian dollar
CHF	Swiss Franc
EUR	Euro
USD	US dollar

Oil related terms and measurements

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

Condensed Interim Consolidated Statement of Comprehensive Income (unaudited)

For the three and nine months ended September 30

Expressed in thousands of United States dollars	Note	Three months ended September 30, 2021	Three months ended September 30, 2020	Nine months ended September 30, 2021	Nine months ended September 30, 2020
Revenues	6	**29,070**	**15,358**	**74,884**	**42,592**
Cost of goods sold:					
Lifting costs	7	(4,551)	(4,650)	(13,868)	(17,875)
Other costs of production	7	(6,460)	(40)	(6,574)	(3,808)
Depletion	7	(6,039)	(6,716)	(17,215)	(24,056)
Gross margin on oil sales		**12,020**	**3,952**	**37,227**	**(3,147)**
Impairment loss	12,13	-	-	-	(116,164)
Depreciation and amortization expense		(56)	(52)	(168)	(151)
Share based payments expense	21	(198)	(283)	(1,332)	(1,405)
General and administrative expense	8	(1,844)	(1,678)	(5,191)	(6,066)
Income / (loss) from operating activities		**9,922**	**1,939**	**30,536**	**(126,933)**
Finance income	9	9	-	888	3
Finance cost	10	(9,904)	(4,654)	(22,059)	(15,635)
Net finance cost		**(9,895)**	**(4,654)**	**(21,171)**	**(15,632)**
Income / (loss) before income tax expense		**27**	**(2,715)**	**9,365**	**(142,565)**
Income tax expense	11	(8)	(18)	(43)	(75)
Income / (loss) for the period		**19**	**(2,733)**	**9,322**	**(142,640)**
Other comprehensive income					
Items that will not be reclassified to profit or loss:					
Re-measurements on defined pension plan		(2)	-	474	32
Items that may be reclassified to profit or loss:					
Currency translation differences		(14)	21	(96)	(4)
Total other comprehensive (loss)/income		**(16)**	**21**	**378**	**28**
Total comprehensive income/(loss) for the period		**3**	**(2,712)**	**9,700**	**(142,612)**
Income/ (Loss) in dollars per share:					
Basic and diluted		-	-	-	(0.07)

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

Condensed Interim Consolidated Balance Sheet (unaudited)

At September 30, 2021 and December 31, 2020

Expressed in thousands of United States dollars	Note	September 30, 2021	December 31, 2020
ASSETS			
Non-current assets			
Property, plant and equipment	*12*	146,856	146,046
Right-of-use asset		88	199
Intangible assets	*13*	51	70
Loans and receivables	*14*	-	49,941
		146,995	**196,256**
Current assets			
Cash and cash equivalents, restricted	*5*	116,345	11,451
Loans and receivables	*14*	68,235	18,128
Cash and cash equivalents, unrestricted		34,703	16,967
Other current assets	*15*	5,802	571
		225,085	**47,117**
TOTAL ASSETS		**372,080**	**243,373**
LIABILITIES			
Non-current liabilities			
Provisions	*19*	22,771	15,479
Loan from related party	*18*	21,080	19,215
Pension liability		880	1,477
Cash-settled deferred share units	21	586	202
Lease liability		-	54
		45,317	**36,427**
Current liabilities			
Borrowings	*17*	290,360	188,416
Accounts payable and accrued expenses	*16*	14,544	3,578
Accrued interest expense on bonds	*17*	7,464	11,145
Lease liability		81	134
Current tax liabilities		-	6
		312,449	**203,279**
EQUITY			
Share capital	*20*	640,128	638,434
Share based payments reserve		9,199	8,766
Loan Share reserve	*18*	2,883	4,063
Cumulative translation adjustment		(46)	50
Accumulated deficit		(637,850)	(647,646)
		14,314	**3,667**
TOTAL EQUITY AND LIABILITIES		**372,080**	**243,373**

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 and nine months ended September 30,

Expressed in thousands of United States dollars	Note	Three months ended September 30, 2021	Three months ended September 30, 2020	Nine months ended September 30, 2021	Nine months ended September 30, 2020
Operating activities					
Income / (loss) for the period		**19**	**(2,798)**	**9,322**	**(142,640)**
Adjustments for:					
Borrowing costs – net of amount capitalized		10,121	4,648	22,449	15,559
Depreciation, depletion and amortization expense		6,095	6,768	17,383	24,207
Share based payment expense		198	283	1,332	1,405
Impairment loss	*12,13*	-	-	-	116,164
Net gain from settlement of debt	*9*	-	-	(792)	-
Re-measurements on defined pension plan		(2)	-	474	32
Interest income	*9*	(4)	-	(14)	(3)
Foreign exchange(gain) / loss	*9,10*	(5)	78	(82)	65
Unwinding discount on decommissioning provision		(222)	(11)	(405)	3
Changes in accounts payable and accrued expenses		11,301	(4,493)	10,966	(5,102)
Change in pension liability		1	-	(526)	(2)
Changes in current tax liabilities		-	5	(6)	20
Changes in other current assets		(5,073)	(77)	(5,231)	(109)
Changes in accounts receivables on Atrush oil sales		(9,885)	84	(14,303)	(2,089)
Net cash inflows from operating activities		**12,544**	**4,487**	**40,567**	**7,510**
Investing activities					
Loans and receivables – payments received	*14*	4,669	2,604	14,137	6,481
Interest received on cash deposits	*9*	4	-	14	3
Purchase of intangible assets		(5)	(1)	(7)	(7)
Purchase of property, plant and equipment		(2,588)	(1,515)	(10,036)	(6,950)
Net cash inflows from / (outflows to) investing activities		**2,080**	**1,088**	**4,108**	**(473)**
Financing activities					
Net proceeds received on new bond issue	*17*	109,800	-	109,800	-
Proceeds on loan from related party		-	22,800	-	22,800
Bonds retired	*17*	-	-	(9,208)	-
Principal element of lease payments		(31)	(36)	(96)	(104)
Payments to bondholders - interest	*17*	(10,800)	(11,400)	(22,465)	(22,800)
Net cash inflows from/ (outflows to) financing activities		**98,969**	**11,364**	**78,031**	**(104)**
Effect of exchange rate changes on cash and cash equivalents		(21)	(31)	(76)	(31)
Change in cash and cash equivalents		**113,572**	**16,908**	**122,630**	**6,902**
Cash and cash equivalents, beginning of the year		37,476	5,524	28,418	15,530
Cash and cash equivalents, end of the period*		**151,048**	**22,432**	**151,048**	**22,432**
***Inclusive of restricted cash**	*5*	**116,345**	**11,451**	**116,345**	**11,451**

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 nine months ended September 30,

Expressed in thousands of United States dollars	Share capital	Share based payments reserve	Loan Share reserve	Cumulative translation adjustment	Accumulated deficit	Total
Balance at January 1, 2020	**637,688**	**7,241**	**-**	**17**	**(502,810)**	**142,136**
Total comprehensive loss for the period:						
Loss for the period	-	-	-	-	(142,640)	(142,640)
Other comprehensive (loss)/gain	-	-	-	(4)	32	28
Transactions with owners in their capacity as owners:						
Share based payments expense (excluding DSU)	-	1,183	-	-	-	1,183
Reserve for loan shares to be issued	-	-	4,718	-	-	4,718
Loan Shares issued	262	-	(262)	-	-	-
RSU Shares issued	102	-	-	-	-	102
	364	1,183	4,456	(4)	(142,608)	(136,609)
Balance at September 30, 2020	**638,052**	**8,424**	**4,456**	**13**	**(645,418)**	**5,527**
Balance at December 31, 2020	**638,434**	**8,766**	**4,063**	**50**	**(647,646)**	**3,667**
Total comprehensive income for the period:						
Income for the period	-	-	-	-	9,322	9,322
Other comprehensive (loss)/gain	-	-	-	(96)	474	378
Transactions with owners in their capacity as owners:						
Share based payments expense (excluding DSU, Note 21)	-	433	-	-	-	433
Loan Shares issued (Note 18)	1,180	-	(1,180)	-	-	-
RSU Shares issued	514	-	-	-	-	514
	1,694	433	(1,180)	(96)	9,796	10,647
Balance at September 30, 2021	**640,128**	**9,199**	**2,883**	**(46)**	**(637,850)**	**14,314**

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

1. General information

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

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

On July 12, 2021, the Company announced that it has signed an agreement with a subsidiary of TotalEnergies S.E. to acquire its affiliate (TEPKRI Sarsang A/S) (the "TEPKRI Acquisition") holding an 18% non-operated participating interest in the Sarsang Production Sharing Contract in the Kurdistan Region of Iraq. The TEPKRI Acquisition is subject to regulatory and exchange approvals in Canada, Kurdistan and Sweden. Please refer to Note 5: TEPKRI Acquisition for further detail.

2. Basis of preparation, going concern and significant accounting policies

a. Basis of preparation

These unaudited condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and the IFRS Interpretations Committee. The significant accounting policies of the Company have been applied consistently throughout the year. The policies applied in these consolidated financial statements are based on IFRS which were outstanding and effective as of November 9, 2021, the date these interim consolidated financial statements were approved and authorized for issuance by the Company's board of directors ("the Board").

The disclosures provided below are incremental to those included with the Company's annual consolidated financial statements. Certain information and disclosures normally included in the Notes to the annual consolidated financial statements have been condensed or have been disclosed on an annual basis only. Accordingly, these interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2020.

b. Going concern

These 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.

Should there be delays to the forecasted receipt of cash from the sale of oil exports or in the magnitude of those cash receipts, which are under the control of the Kurdistan Regional Government ("KRG"), and the Company was unable to defer certain planned cost activities, the Company could require additional liquidity in the next 12 months to fund the forecasted Atrush operating and development costs thereafter. Failure to meet development commitments could put the Atrush PSC and the Company's bond agreements at risk of forfeiture. The Bond Terms were amended during the 2020 financial year to provide for a put option in favour of the bondholders; exercise of this put option would require immediate and significant additional liquidity. The Bond Terms were also amended with a temporary waiver granted with respect to the existing breach of the financial covenant relating to the equity ratio. On July 27, 2021 the bondholders voted to extend this waiver until October 23, 2022. Although there may be the possibility that the Company could be in breach of this covenant at this extended date, management believes there is a low likelihood given the announcement on July 30, 2021, of the settlement of a new bond on terms that do not contain such an equity ratio requirement (nor the put option). Should the TEPKRI Acquisition, announced on July 12, 2021, not go ahead then the Company would need to re-assess its ability to comply with this covenant in the future.

In case the Company could not secure external financing in sufficient amount and in time to meet its obligations as they come due, the Company may be required to take measures such as divestment of assets and or further renegotiation of its existing debt. Should this not be successful, there is a risk that the Company would be subject to a partial or complete reorganization, or that the Company is declared bankrupt. The potential that the Company's financial resources are insufficient to fund its appraisal, development and production activities for the next 12 months, particularly in case the Company is unable to finance the maturing bonds and coupon interest payment when they come due and or there are any unforeseen delays in receipt of funds from oil sales, indicates a material uncertainty which may cast significant doubt over the Company's ability to continue as a going concern. Therefore, the Company might be unable to realize its assets and discharge its liabilities in the normal course of business. These consolidated financial statements do not include the adjustments that would result if the Company is unable to continue as a going concern.

Refer to Note 5, 17 and 25 for additional information.

c. Significant accounting policies

These 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, 2020.

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 mainly disclosed in Note 4 of the Company's audited consolidated financial statements for the year ended December 31, 2020.

Refer to Notes 2b and 25 for additional information.

4. Business and geographical segments

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

5. TEPKRI Acquisition

On July 12, 2021, the Company announced that it signed an agreement with a subsidiary of TotalEnergies S.E. to acquire its affiliate (TEPKRI Sarsang A/S) which holds an 18% non-operated participating interest in the Sarsang Production Sharing Contract ("Sarsang PSC") in the Kurdistan Region of Iraq ("Kurdistan"). The TEPKRI Acquisition has an effective date of January 1, 2021. The "change of control" of TEPKRI resulting from the TEPKRI Acquisition is subject to regulatory and exchange approvals in Canada, Kurdistan and Sweden and at the date of these financial statements, full approval has not yet been obtained.

The Company will pay an initial consideration of $155 million upon closing of the TEPKRI Acquisition, before working capital and related adjustments, and an additional contingent consideration of $15 million in the future, as follows:

- The initial consideration of $155 million is divided into (i) an upfront cash payment of $135 million payable upon closing and (ii) a deferred consideration of $20 million structured as a vendor finance in the form of a 5.5% convertible promissory note issued to a subsidiary of TotalEnergies with a 12-months' maturity from the date of closing.
- A potential additional contingent consideration of $15 million is payable in the future upon (i) cumulative gross production from the Sarsang PSC reaching 130 MMbbls and (ii) subject to Brent crude oil prices averaging at least $60/bbl for the preceding twelve month period.

The Company intends to finance the TEPKRI Acquisition through the issue of a new $300 million bond, the raising of $30 million from the sale of additional equity through a planned rights offering, and by utilizing the Company's available cash on hand.

On July 16, 2021 the Company announced the successful placement of a new $300 million bond, with a 4-year tenor due July 2025 and priced at 12% fixed semi-annual coupon (the "2025 Bond"). The 2025 Bond will be issued at 98.5% of nominal value which is applicable to both new money under the Initial Issue Amount of $111.5 million and the refinancing of existing debt. Subject to the closing of the TEPKRI Acquisition, the proceeds from the 2025 Bond issue will be used to refinance $175 million of the currently outstanding $180 million bond, to refinance $7.2 million of existing subordinated debt, to partly finance the TEPKRI Acquisition and for general corporate purposes. The existing debt that is proposed to be refinanced into the new bond includes $7.2 million of the total $22.8 million debt currently owed by the Company to Nemesia S.à.r.l. ("Nemesia"), the $15.6 million balance will remain on amended terms.

On July 27, 2021 the Company announced that the proposals for the conditional refinancing of the existing bond, as well as necessary waivers for the issuance of the 2025 Bond, and other financial matters relating to the existing bond were approved by the bondholders voting on the proposals.

Furthermore, on July 30, 2021 the Company announced that it completed the initial issue of the 2025 Bond which settled and issued for gross cash proceeds of $109.8 million. The bonds issued form part of the larger $300 million senior unsecured financing previously announced, of which the $188.5 million remaining balance will be issued to refinance existing indebtedness of the Company in connection with, and conditional upon completion of, the TEPKRI Acquisition.

Proceeds from the initial bond issue will be used to pay a portion of the purchase price of the TEPKRI Acquisition and have been placed into escrow subject to release following the satisfaction of conditions precedent to completion of the TEPKRI Acquisition. These funds totalling $109.8 million are held within restricted cash at September 30, 2021, along with a further $6.5 million of restricted cash held in a Debt Service Retention Account ("DSRA") to cover the interest relating to the initial bond issue and related fees.

In addition, the Company announced on July 30,2021 that it has entered into an agreement with Nemesia to underwrite shares not subscribed for by others pursuant to subscription rights to be issued in the planned rights offering.

Refer also to Notes 2b, 8, 14, 15, 18 and 24.

6. Revenues

Revenues relate entirely to the Company's entitlement share of oil from Atrush sold to the KRG during the year to date. The Company holds a 27.6% interest in Atrush. Production from the Atrush field is delivered to the KRG's Feeder Pipeline at the Atrush block boundary for onward export to Ceyhan, Turkey. Gross exported oil volumes from Atrush in the first nine months of 2021 were 10.8MMbbls (2020: 12.76MMbbls) and the Company's entitlement share was approximately 1.4MMbbls (2020: 1.7MMbbls) which were sold with an average netback price of $52.07 per barrel (2020: $25.66). Export prices are based on Dated Brent oil price with a discount for estimated oil quality adjustments and all local and international transportation costs. ShaMaran's oil entitlement share is based on export prices and on Atrush PSC terms covering allocation of profit oil, cost oil and capacity building payments owed to the KRG.

Refer also to Notes 14 and 22.

7. Cost of goods sold

Lifting costs are comprised of the Company's share of expenses related to the production of oil from the Atrush Block including operation and maintenance of wells and production facilities, insurance, and the operator's related support costs. The decrease in 2021 lifting costs in the quarter over the amount in 2020 was mainly due to lower production and reduced Kurdistan diesel costs. Other costs of production include the Company's share of production bonuses and its share of other costs prescribed under the Atrush PSC. A production bonus of $6.4 million was incurred during the third quarter of 2021 (2020: $3.7 million).

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

Refer also to Notes 6, 12 and 23.

Expressed in thousands of United States dollars

8. General and administrative expense

General and administrative expenses principally include the Company's cost of technical and administrative personnel, travel, office, business development and stock exchange listing and regulatory related costs. The increased general and administrative expense in the third quarter 2021 compared to the third quarter 2020 was principally due to additional legal costs relating to the TEPKRI Acquisition.

Refer to note 5.

9. Finance income

	Three months ended September 30,		Nine months ended September 30,	
	2021	**2020**	**2021**	**2020**
Net gain on settlement of debt	-	-	792	-
Interest on deposits	4	-	14	3
Total gain and interest income	**4**	**-**	**806**	**3**
Foreign exchange gain	5	-	82	-
Total finance income	**9**	**-**	**888**	**3**

The net gain on settlement of debt is due to the Company purchasing its Bonds in the market at commercially attractive rates, as permitted by the January 2021 amendment to the Bond terms, resulting in, at September 30, 2021, a net gain on settlement of $0.792 million which is included in finance income in the income statement.

Refer also to Note 17.

10. Finance cost

	Three months ended September 30,		Nine months ended September 30,	
	2021	**2020**	**2021**	**2020**
Interest charges on bonds at coupon rate	7,764	5,700	18,784	17,037
Call premium on new bond	1,672	-	1,672	-
Amortization of the related party loan	648	542	1,865	542
Amortization of bond transaction costs	159	151	472	216
Bond remeasurement	-	(1,506)	-	(1,506)
Total borrowing costs	**10,243**	**4,887**	**22,793**	**16,289**
Lease – interest expense	5	4	15	8
Foreign exchange loss	-	14	-	66
Unwinding discount on decommissioning provision	(222)	(11)	(405)	3
Total finance costs before borrowing costs capitalized	**10,026**	**4,894**	**22,403**	**16,366**
Borrowing costs capitalized	(122)	(240)	(344)	(731)
Total finance cost	**9,904**	**4,654**	**22,059**	**15,635**

Interest charges in the third quarter of 2021 include accrued interest on the initial issue amount of $111.5 million of the 2025 Bond. The call premium relates to the difference between the initial issue of $111.5 million principal amount and the gross cash proceeds of $109.8 million, as the 2025 Bond was issued at 98.5% of nominal value. Refer to Note 5.

Refer to Notes 17 and 18 regarding the related party loan and bond transaction costs.

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

11. Taxation

The Company’s income tax expense relates to a provision for income tax on service income generated in Switzerland.

12. Property, plant and equipment

The net book value of property, plant and equipment (“PP&E”) is principally comprised of development costs related to the Company’s share of Atrush PSC proved and probable reserves as estimated by the Company’s independent qualified reserves evaluator, McDaniel & Associates Consultants Ltd. (“McDaniel”). During the first nine months of 2021, movements in PP&E were comprised of additions of $18.1 million (2020: $9.5 million), which included capitalized borrowing costs of $344 thousand (2020: $908 thousand), net of depletion of $17.3 million (2020: $22.8 million) and an impairment of $nil (2020: $48.6 million) which resulted in a net increase to PP&E assets of $0.8 million.

Due to a significant decline in world oil prices in the first quarter of 2020 the Company conducted an impairment test to assess if the net book value of its oil and gas assets was fully recoverable. This led to a non-cash impairment charge of $48.6 million which is included in the statement of comprehensive income in the prior year.

Refer also to Notes 7 and 13.

13. Intangible assets

The net book value of intangible assets at September 30, 2021 relates to computer software.

Due to a significant decline in world oil prices in the first quarter of 2020 the Company conducted an impairment test at March 31, 2020 to assess if the net book value of its exploration and evaluation (“E&E”) assets, which represented the Atrush Block exploration and appraisal costs related to the Company’s share of Atrush Block contingent resources, was recoverable. This led to a non-cash impairment charge of $67.6 million which is included in the statement of comprehensive income in the prior year.

Refer also to Note 12.

Expressed in thousands of United States dollars

14. Loans and receivables

At September 30, 2021, the Company had loans and receivables outstanding as follows:

	At September 30, 2021	At December 31, 2020
Accounts receivable on Atrush oil sales	52,887	38,584
Atrush Exploration Costs receivable	18,549	32,686
Provision for impairment	(3,201)	(3,201)
Total loans and receivables, net of provision	**68,235**	**68,069**
Current portion	68,235	18,128
Non-current portion	-	49,941

At December 31, 2020, $41.7 million of non-current loans and receivables was overdue, this related to $34 million of deliveries from November 2019 to February 2020 and an additional $7.7 million of Atrush Exploration Costs receivable invoiced over the same period. In December 2020 the KRG proposed a repayment mechanism for the $41.7 million owed to the Company. This proposal stated that a mechanism will be in place for repayment of amounts owed once the Brent oil price is over $50 per barrel in any month and that various amounts due to the KRG will be offset against the amounts owed from the KRG. At December 31, 2020, the Company assessed the proposal, taking into account counterparty discounting and credit risk, and estimated the future cash flows of the trade receivables. Under IFRS 9 this resulted in a $3.2 million adjustment to these trade receivables included in the statement of comprehensive income for the year ended December 31, 2020.

The repayment mechanism began in January 2021, terms were updated by the KRG in March and May 2021, and at September 30, 2021, $11.4 million of the overdue receivables has been recovered with a further $4.4 million received after the balance sheet date. At the date of these financials a total of $20.8 million has been invoiced to the KRG relating to these receivables. The Company is currently in discussions with the KRG to offset the $6.4 million production bonus incurred in the quarter against the outstanding receivables. The Company has reassessed the impairment provision made at year end, with the updated terms, and the provision is still deemed appropriate at September 30, 2021. The Company expects to recover the full nominal value of $41.7 million receivables owed from the KRG, however, since the amount is dependent on the future price of oil, the provision remains to reflect discounting and credit risk.

All the loans and receivables are expected to be recovered within the next 12 months and are therefore all classified as a current receivable at September 30,2021.

In the year 2021 up to the date these financial statements were approved the Company had received a total of $29.2 million in payments relating to the total loans and receivables balances outstanding at September 30, 2021.

Refer to Note 23.

Expressed in thousands of United States dollars

15. Other current assets

	At September 30, 2021	At December 31, 2020
Prepaid expenses	5,617	217
Other receivables	185	354
Total other current assets	**5,802**	**571**

Costs in the amount of $5.2 million relating to the refinancing of the Company debt and to the rights offering to shareholders of the Company were included in prepaid expenses at September 30, 2021. These costs will be capitalized upon closing of the TEPKRI Acquisition. Refer also to Note 5.

16. Accounts payable and accrued expenses

	At September 30, 2021	At December 31, 2020
Payables to joint operations partner	8,272	2,067
Accrued expenses	5,259	983
Trade payables	1,013	528
Total accounts payable and accrued expenses	**14,544**	**3,578**

Payables to joint operations partner include $6.4 million for the production bonus that was incurred in the third quarter of 2021. Refer to Note 23 for further detail.

The increase in accrued expenses in the third quarter of 2021, compared to the third quarter of 2020, is due to accruals relating to the costs of refinancing the Company's bonds and work related to the proposed rights offering associated with the TEPKRI Acquisition as discussed in Note 5.

Expressed in thousands of United States dollars

17. Borrowings

The ShaMaran bond issued in 2018 has one amortization due in December 2021 and carries a 12% fixed semi-annual coupon and matures on July 5, 2023 (the "2023 Bond"). At September 30, 2021 there was $180 million outstanding principal amount of the 2023 Bond and an additional $111.5 million of the 2025 Bond, also at a semi-annual coupon of 12%, relating to the initial issue on July 30, 2021, as described in Note 5.

On July 6, 2021 the Company announced that the July 2021 interest payment of $10.8 million had been made to all bondholders of the 2023 Bond.

The Company has an obligation under the 2023 Bond Terms to make an amortization payment of $15 million by December 2021, to reduce the outstanding principal amount of the 2023 Bond to $175 million. On January 26, 2021, the Company announced that the proposal had been approved by its bondholders to permit the Company to use its "free cash", in excess of $15 million, to buy back amounts of its 2023 Bond in the market, at the Company's discretion. The nominal amounts of the 2023 Bond so re-purchased will be retired by the Company. During the first nine months of 2021, the Company has re-purchased $10 million of 2023 Bond in the market at commercially attractive rates resulting in a net gain. The Company's required amortization payment later this year has accordingly been reduced from $15 million to $5 million.

The 2020 amendment and restatement of the 2023 Bond Terms included an amendment to provide for a put option in favor of the bondholders to require that the Company purchase the 2023 Bond (at par plus accrued interest and the existing call premium) at any time on ten (10) business days' notice, subject to the affirmative vote by holders of 50.01% of the 2023 Bond. As the put option in the amended Bond Terms is outside of management's control, all the borrowings are classified as current at September 30, 2021. Upon successful closing of the TEPKRI Acquisition, see notes 2b and 5, this specified put option will no longer continue to exist following the exchange of all the 2023 Bonds for 2025 Bonds.

The movements in borrowings are explained as follows:

	9 months ended September 30, 2021	12 months ended December 31, 2020
Opening balance	**199,561**	**200,693**
2025 Bond issued	109,800	-
Interest charges at coupon rate	18,784	22,800
Call premium on 2025 Bond	1,672	-
Amortization of bond transaction costs	472	375
2023 Bond remeasurement	-	(1,505)
2023 Bond amount retired	(10,000)	-
Payments to 2023 bondholders – interest and call premiums	(22,465)	(22,802)
Ending balance	**297,824**	**199,561**
Current portion: borrowings	290,360	188,416
Current portion: accrued bond interest expense	7,464	11,145

Refer also to Note 10.

Expressed in thousands of United States dollars

18. Loan from related party

In July 2020 the Company announced a full drawdown of the $22.8 million of Nemesia's liquidity guarantee followed by the full and final discharge of such liquidity guarantee by the Bond Trustee. With such drawdown, $11.4 million of the funds were used to pay in full and timely the 2023 Bond coupon interest payment due in July 2020 and the remaining $11.4 million were held as restricted cash and then used to pay in full and timely the next coupon interest payment in January 2021. In exchange for the drawdown of funds the Company is required to issue monthly to Nemesia 50,000 shares of ShaMaran for each $500 thousand drawn down and outstanding until the drawn amount is repaid in full together with interest (the "Loan Shares"). At the current $22.8 million drawdown amount the Company is required to issue to Nemesia 2,280,000 ShaMaran shares per month. In addition, the Company is required to accrue interest on the amount due to Nemesia at an annual rate of 5%. Repayment of the accrued interest and principal by the Company to Nemesia is payable on or before July 5, 2023 and such claim for repayment is subordinated to all obligations under the Company's 2023 and 2025 bond terms.

In accordance with *IFRS 9 Financial Instruments* the liquidity guarantee is a compound financial instrument which has two parts: a liability component and an equity component. The fair value of the liability component is presented on the balance sheet as "loan from related party". The fair value of the equity is presented on the balance sheet as "Loan Share reserve". As Nemesia are issued the Company shares each month the Loan Share reserve value is transferred into share capital on a straight-line basis. During 2021 $1,180 thousand (2020 $655 thousand) has been transferred into share capital.

The first nine months of 2021 movements in the liquidity guarantee loan balance are explained as follows:

	9 months ended September 30, 2021	12 months ended December 31, 2020
Opening balance	**19,214,595**	**-**
Amortization of the liability component	1,865,200	1,132,450
Cash received: full amount of the liquidity guarantee	-	22,800,000
FV of the equity component	-	(4,717,855)
Ending balance	**21,079,795**	**19,214,595**
Non-current liability: loan from related party	21,079,795	19,214,595

Upon successful closing of the TEPKRI Acquisition, see Note 5, the terms of this loan from Nemesia will be amended and restated.

Refer also to Notes 10, 20 and 24.

19. Provisions

The provision relates to the Company's share of future decommissioning and site restoration costs in respect of the Company's 27.6% interest in the Atrush Block and assumes these works will commence in the year 2032. The significant increase in the provision in 2021 is mainly due to the rise in the inflation rate that is used in calculating the provision.

20. 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 January 1, 2020	**2,160,631,534**	**637,688**
Loan Shares issued	11,400,000	655
RSU Shares issued	3,836,667	91
At December 31, 2020	**2,175,868,201**	**638,434**
Loan Shares issued	20,520,000	1,179
RSU Shares issued	12,121,462	515
At September 30, 2021	**2,208,509,663**	**640,128**

Expressed in thousands of United States dollars

21. 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 September 30, 2021, a total of 96,499,811 shares, 4% of issued share capital, had been granted of the possible 220,850,966 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 share unit plans the Company may grant performance share units ("PSU"), restricted share units ("RSU") or deferred share units ("DSU").

On March 8, 2021, the Company granted a total of 15,590,000 stock options, 8,950,000 RSUs to certain senior officers and other eligible persons of the Company and 5,059,600 DSUs to non-employee directors (2020 full year: a total of 35,840,000 stock options, 21,250,000 RSUs and 4,466,665 DSUs were granted). The options vest over a period of two years and are exercisable over a period of five years at a strike price of CAD 0.05 per share. The RSU grants were based on the grant share price of CAD 0.051, vest over a period of three years and are redeemable in cash or shares of the Company up to five years after the grant date. The DSU grants were based on the grant share price of CAD 0.05 and may not be redeemed until a minimum period of three months has passed following the end of service as a director of the Company and are to be settled in cash thereafter.

In the first nine months of 2021, a total of 12,121,462 RSUs vested and the same quantity of shares were issued to plan participants. In the first nine months of 2021 418,537 RSUs and 14,210,000 stock options were cancelled or expired due to the end of service of plan participants (2020 full year: a total of 3,836,667 RSUs vested and shares were issued, and 22,300,000 stock options and 380,000 RSUs were cancelled or expired).

The result of the movements in the first nine months of 2021, are charges to the Statement of Comprehensive Income for options of $541 thousand (2020: $1,071 thousand), for RSUs $407 thousand (2020: $215 thousand) and for DSUs $384 thousand (2020: $119 thousand). The carrying amount of the DSU liability at September 30, 2021 is $586 thousand.

A summary of movements in the Company's outstanding options and share units are as follows:

	Number of share options outstanding	Number of RSUs outstanding	Number of DSUs outstanding
At December 31, 2020	**60,610,000**	**28,693,333**	**7,346,877**
Granted in the year	15,590,000	8,950,000	5,059,600
Expired/cancelled in the year	(14,210,000)	(3,418,537)	-
RSU Shares vested and issued in the year	-	(12,121,462)	-
At September 30, 2021	**61,990,000**	**22,103,334**	**12,406,477**
Quantities vested and unexercised:			
At December 31, 2020	28,950,000	-	7,346,877
At September 30, 2021	43,069,995	-	12,406,477

The Company recognizes compensation expense on share options granted to both employees and non-employees using the fair value method at the date of grant, which the Company records as an expense. The share-based payments expense 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 share options.

Expressed in thousands of United States dollars

22. 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 September 30, 2021	At December 31, 2020
Cash and cash equivalents, restricted [2]		116,345	11,451
Loans and receivables [5]	Level 3	68,235	68,069
Cash and cash equivalents, unrestricted [2]		34,703	16,967
Other receivables [2]		185	354
Total financial assets		**219,468**	**96,841**

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 September 30, 2021	At December 31, 2020
Borrowings [3] [6]	Level 2	290,360	188,416
Related party loan[4]	Level 2	21,080	19,215
Accounts payable and accrued expenses [2]		14,544	3,578
Accrued interest on bonds		7,464	11,145
Current tax liabilities		-	6
Total financial liabilities		**333,448**	**222,360**

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, due 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 borrowings at the balance sheet date is $291.5 million (December 31, 2020: $171 million) based on recent trades of the Company's bonds.

[4] The Company estimates the fair value of its related party loan at the balance sheet date is $22.8 million.

[5] An impairment has been made to the loans and receivables in the prior year, see Note 14 for details.

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

Expressed in thousands of United States dollars

23. Commitments and contingencies

At September 30, 2021 the outstanding commitments of the Company were as follows:

	For the nine months ended September 30, 2022	2023	2024	Thereafter	Total
Atrush Block development and PSC	13,486	166	166	1,490	**15,308**
Corporate office and other	96	-	-	-	**96**
Total commitments	**13,582**	**166**	**166**	**1,490**	**15,404**

Amounts relating to Atrush Block development represent the Company's unfunded paying interest share of the approved 2021 work program and other obligations under the Atrush PSC.

Under the terms of the Atrush PSC, the Company owes a share of production bonuses payable to the KRG when cumulative oil production from Atrush reaches production milestones defined in the Atrush PSC. The final production bonus payable is $23.3 million at the 50 million cumulative barrel production milestone (ShaMaran share: $6.4 million). This production milestone was achieved in September, 2021. The Company intends to offset the production bonus against the receivables outstanding from the KRG. The production bonuses represent an outflow of Company resources as an economic benefit to the KRG, rather than as an exchange for a service, and are therefore accounted for in accordance with *IFRIC 21 Levies* which requires that the obligation be recognized on the date at which the production milestone is reached.

Refer to Note 7.

24. Related party transactions

Transactions with corporate entities

	Purchase of services for periods ended September 30, three months		nine months		Amounts owing at the balance sheet dates	
	2021	2020	2021	2020	September 30, 2021	December 31, 2020
Nemesia	680	534	2,029	534	1,543	690
Namdo Management Services Ltd	9	13	25	37	-	-
Total	**689**	**547**	**2,054**	**571**	**1,543**	**690**

Nemesia is a company controlled by a trust settled by the estate of the late Adolf H. Lundin and is a shareholder of the Company. The Company has an obligation to issue shares each month to Nemesia based on the $22.8 million drawn down on the liquidity guarantee and accrue 5% interest based on the principal balance outstanding.

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

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

Refer to Notes 5, 10, 18 and 20.

25. Impact of COVID-19

In March 2020 the World Health Organization declared a global pandemic following the emergence and rapid spread of a novel strain of the coronavirus ("COVID-19"). The outbreak and subsequent measures intended to limit the pandemic contributed to significant volatility in financial markets. The pandemic adversely impacted global commercial activity, including significantly reducing worldwide demand for crude oil. Since the onset of COVID-19, industry led production curtailment as well as government stimulus programs and other improvements in general economic conditions have resulted in a strengthening of commodity prices. Even though 2021 has seen an improvement in the situation with a return to more normal business activities and the rollout of COVID-19 vaccinations throughout parts of the world, the potential for the COVID-19 pandemic to continue creates an inherent level of uncertainty and may increase ShaMaran's exposure to, and magnitude of, the risks and uncertainties identified in ShaMaran's 2020 Annual Information Form and previous financial reports and management's discussion and analysis that result from a reduction in demand for oil and gas consumption and/or lower commodity prices and/or reliance on third parties. The extent to which COVID-19 impacts ShaMaran's business, results of operations and financial condition will depend on future developments, which are highly uncertain and are difficult to predict, including, but not limited to, the duration and spread of the current and any future COVID-19 outbreaks of variants for which current vaccinations may no longer be effective, their severity, the actions taken to contain such outbreaks or treat their impact, and how quickly and to what extent normal economic and operating conditions resume and their impacts to ShaMaran's business, results of operations and financial condition. Even after the COVID-19 outbreaks have subsided, ShaMaran may continue to experience materially adverse impacts to ShaMaran's business as a result of the global economic impact. ShaMaran continues to monitor this situation and work to adapt its business to further developments as determined necessary or appropriate.

26. Subsequent events

Since September 30, 2021 a further 4,560,000 Loan Shares have been issued to Nemesia in accordance with the Company's obligations.

Refer to notes 18,20 and 24.

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Michael S. Ebsary
Director

Keith C. Hill
Director

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