SHAMARAN petroleum corp

Q1

SHAMARAN petroleum corp

Financial Report

For the three months ended March 31, 2023 (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.

Contents

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL STATEMENTS

Management's Discussion and Analysis
For the three months ended March 31, 2023

INTRODUCTION

Management's discussion and analysis ("MD&A") of the financial and operating results of ShaMaran Petroleum Corp. (together with its subsidiaries, "ShaMaran" or the "Company") is prepared with an effective date of May 10, 2023 and is intended to provide an overview of the Company's operations, financial performance and current and future business opportunities. The MD&A should be read in conjunction with the unaudited condensed interim consolidated financial statements for the three months ended March 31, 2023, together with the accompanying notes ("Financial Statements").

Company Overview

ShaMaran is in the business of developing and producing oil and gas and holds the following interests in production sharing contracts:

- An 27.6% participating interest in the Atrush Block, Kurdistan Region of Iraq through its wholly owned subsidiary General Exploration Partners, Inc. ("GEP").
- An 18% participating interest (22.5% paying interest) in the Sarsang Block, Kurdistan Region of Iraq through its wholly owned subsidiary ShaMaran Sarsang A/S. The Company announced the successful closing of the acquisition of TEPKRI Sarsang A/S (the "Sarsang Acquisition"), a wholly owned subsidiary of TotalEnergies S.E. ("TTE") on September 14, 2022. The Company changed the name of the company immediately after closing to ShaMaran 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 and records office is 550 Burrard Street, Suite 2900, Vancouver, BC Canada V6C 0A3 and its business address is 885 West Georgia Street, Suite 2000, 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").

FIRST QUARTER 2023 HIGHLIGHTS AND KEY EVENTS

The Company started the new year as a significantly larger company after the closing of the Sarsang Acquisition in 2022 which has materially enhanced the Company's production and reserves. During the quarter four new wells were drilled with one coming online and the others expected to be online in Q2 2023. Production levels in the quarter were increasing however the Iraq-Turkey pipeline ("ITP") shutdowns on February 6, 2023, due to the earthquake in southern Turkey and on March 25, 2023, as a result of the International Chamber of Commerce ("ICC") Arbitration decision (as discussed below), affected production resulting in over a week of reduced production in the quarter. Despite this, the Company still produced positive results for Q1 2023, reflected in the increase revenue and EBITDAX[1], as shown below, and interest was paid in full on the 2025 Bond at the end of January 2023.

Corporate Highlights:

- Steady production, revenues and profitability as the addition of Sarsang barrels more than offset the realized price decline versus Q1 2022;
- Strong operational activity during the quarter on both Atrush and Sarsang:
  - Significant drilling activity on both assets, aiming to increase Atrush production back up towards processing capacity limits, and in Sarsang to sustain current plateau rates;
  - Further debottlenecking and optimization of facilities in both fields, aimed at increasing oil and water handling, which in turn increases utilization and lowers lifting costs; and
  - Start of gas flaring reduction project at Atrush and feasibility studies for a Sarsang gas solution.
- Material impact on operations and financial results linked to external events:
  - On February 6, 2023, the ITP temporarily suspended exports for the day following an earthquake in southern Turkey; and
  - On March 25, 2023, officials from the Turkish Government ordered the ITP to be shutdown for Kurdish oil exports. The Company is aware that, as of the date of this MD&A, discussions for the re-opening of the ITP to Kurdistan oil exports are continuing among the relevant parties.

Financial Highlights:

USD Thousands	Three months ended Mar 31 2023	2022
Revenue	43,380	38,836
Cost of goods sold	(21,282)	(11,157)
Gross margin on oil sales	22,098	27,679
Net result	9,599	15,080
Cash flow from operations	18,266	23,762
EBITDAX	30,227	30,471

- Delivered Q1 2023 oil sales of $43.4 million, 12% more than Q1 2022;
- Reported an EBITDAX of $30.2 million in Q1 2023, similar to the EBITDAX of Q1 2022; and
- Payments have been received to date for oil sales through to September 2022, for both Atrush and Sarsang, with $37.1 million being received in the quarter. The Company (together with other International Oil Companies) remains in discussions with the KRG about the appropriate recovery mechanism for the overdue receivables, however in line with precedents full recovery is expected.

1 Earnings before interest, tax, depletion, depreciation, amortization, and exploration expense.

Management's Discussion and Analysis

For the three months ended March 31, 2023

Operational Highlights:

- Grew the Company's gross 2P reserves[2] by 225% from 30.4 MMbbls at December 31, 2021 to 68.3 MMbbls at December 31, 2022, which resulted in a ShaMaran record high 2P net reserves replacement ratio of 950%[3] and extended the Company's 2P Reserves Life Index[4] to nearly 12 years;
- Reported Q1 2023 gross average production of approximately 66.8 Mbopd, resulting in 14.9 Mbopd net to ShaMaran;
- Drilled one additional production well (ST-A2) and one water disposal well (ST-AW1) during Q1 2023 in the Sarsang Block. Both wells are expected in operation during Q2 2023[5];
- Drilled two additional Atrush production wells in Q1 2023 (CK-19 and CK-20). CK-19 came online in February 2023 contributing to an increase in field production exit rates for Q1 2023. The second well, CK-20, is expected to come online in Q2, 2023[5];
- Continued implementation of Atrush Capacity Enhancement ("ACE") project and debottlenecking of Sarsang newly commissioned processing facility; and
- Ordering of long lead items for Atrush gas solution project, intended to be completed during 2023[5], leading to a significant reduction of diesel consumption in the field and routine gas flaring.

Subsequent Events:

- Following the closure of the ITP for Kurdistan oil exports, our partners in the Atrush and Sarsang blocks are significantly deferring planned capital expenditures to focus on only safety critical and firm contractual commitments, which are expected to result in a significant reduction of monthly cash outflows for the business in the second quarter. This is expected to be a temporary measure until the resumption of pipeline exports and field operations and importantly, regular payments for oil sales and repayment of receivables due to IOCs;
- Based upon the public statements of officials from the KRG, the Kurdistan Ministry of Natural Resources and Iraq's Ministry of Oil and discussions that senior management of the Company has had (and continues to have) with relevant officials, the Company continues to believe that the ITP shutdown will be temporary and that the KRG will be permitted in due course to resume exports and payments. The Company together with our partners in the Atrush and Sarsang blocks are each taking prudent actions to preserve liquidity through significant reduction of expenditures across the business;
- Capex is planned to be cut by over 50% of the original budget by both operators until production and payments are resumed; and
- Due to such reduction in activity levels and until ITP exports and field operations resume, the Company is suspending the guidance provided for FY 2023 on February 16, 2023. The Company continues to closely monitor the situation and will update the market as appropriate.

OPERATIONS REVIEW

Business Overview

The first quarter of 2023 has seen a continuation of solid market conditions for oil producers. Although oil prices have been more volatile than in recent quarters as they reflect global macroeconomic uncertainties, they have remained sufficiently strong to support strong levels of profitability for oil & gas producers.

As previously announced by the Company, the commissioning of Sarsang's new production facility and the commencement of export via pipeline for oil produced from that facility were the operational highlights discussed in the Q3 2022 MD&A. During the quarter, a further production facility at Sarsang was connected to the export pipeline, significantly increasing the volume of pipeline exports from the field. With the commissioning of the new Sarsang 25,000 bpd processing facility in late 2022 and the Atrush 40,000 bpd processing facility, ShaMaran has been an engine for capacity expansion in Kurdistan these past five years and is continuing to look for growth opportunities.

On March 23, 2023, the ICC released its arbitral ruling in favor of the Federal Government of Iraq against the Republic of Turkey ruling that the use of the ITP for the export of crude oil from Kurdistan requires the consent of the Iraq Ministry of Oil. On March 25, 2023, the ITP was shutdown, at the request of Turkish officials, following the announcement of the ICC arbitration ruling earlier that week. This arbitration case has lasted for several years as part of the overall dispute between the Iraq Federal Government and the KRG regarding oil exports from Kurdistan and its generation of revenue from oil sales. Following the decision and the closure of the pipeline diplomatic efforts to resolve the dispute have intensified, leading to the signing of a framework agreement during April 2023 between the Iraq Federal Government and the KRG on the resumption of exports via the ITP (the "April Agreement").

---

2 Reserves estimates, contingent resource estimates and estimates of future net revenue in respect of ShaMaran's oil and gas assets in the Atrush Block are effective as at December 31, 2022, and are included in the report prepared by McDaniel & Associates Consultants Ltd., an independent qualified reserves evaluator, in accordance with National Instrument 51-101 – *Standards of Disclosure for Oil and Gas Activities* (NI 51-101) and the Canadian Oil and Gas Evaluation Handbook (the COGE Handbook) and using McDaniel's January 1, 2023 price forecasts. Certain abbreviations and technical terms used in this MD&A are defined or described under the heading "Other Supplementary Information".

3 2P Net Reserves Replacement Ratio defined as the ratio of reserves additions to production during the year including impacts of acquisitions and dispositions.

4 2P Reserve Life Index is defined as the Company reserves divided by the Company December 2022 annualized production.

5 Subject to the resumption of (i) pipeline exports, (ii) field operations and (iii) regular payments for oil sales.

Whereas the ITP reopening as at the date of this MD&A has not taken place yet, it is a widely held expectation that the signing of the April Agreement will lead to more stable long term crude oil exports and payment for the IOC oil producers in Kurdistan. Based on public reports it is also expected that the State Organization for Marketing Oil ("SOMO"), the marketing arm of the Ministry of Oil ("MoO") is expected to be granted marketing oversight for all Kurdistan oil exported via the ITP which is also expected to lead to a narrowing of the price discounts for Kurdistan crude oil in the international market.

The resolution of the disputes between the Iraq Federal Government and the KRG are expected to further lead to better realized pricing for Kurdistan barrels that will be sold at the port of Ceyhan.

It has been reported that the April Agreement on ITP exports is part of a broader three-year federal budget agreement to be adopted by the Iraq Federal Parliament that will recognize the Kurdistan Region's constitutionally enshrined entitlement to its proportional share of the overall Iraq federal budget in line with its share of the population. The main revenue source for the KRG will remain the oil sales from ITP exports, with any deficits or excess amounts being adjusted as part of the budget agreement.

Based on discussions with relevant officials and advisors as well as numerous press reports, the Company understands that discussions are continuing to finalize the technical elements of relevant agreements with the parties, in order to recommence oil exports from Kurdistan via the ITP as soon as arrangements are in place.

ShaMaran remains optimistic that despite the current interruption to oil exports that this temporary situation will be satisfactorily resolved. The Company became a member of the Association of the Petroleum Industry of Kurdistan ("APIKUR"), which was formed in February 2023 to (i) promote the Kurdistan Region as an attractive destination for international investors, oil and gas operators and service companies; (ii) advocate for and represent the common interests of its members; (iii) function as a joint and effective voice for its members towards all relevant stakeholders whether in the Kurdistan Region or elsewhere; and (iv) provide a forum for members to share relevant industry information and best practices including in operations, health, safety, security, and environment and corporate social responsibility. The Company will continue to maintain its financial discipline and is well positioned to further grow as new market opportunities present themselves in Kurdistan and elsewhere. We look forward to seeing the value created through our successful operations, further organic growth and potential future acquisitions to translate into much stronger growth in shareholder value for years to come. We are executing on our strategic vision to be a world class producer in Kurdistan with sustainable growth, low-leverage and significant cash flow generation.

Environmental, social and governance considerations are important to ShaMaran and as previously announced in 2022, ShaMaran entered into an initial three (3) year commitment as exclusive corporate sponsor of the Hasar 2025 Vision (including the Million Tree Project) being developed and administered by Hasar for Earth Sciences ("Hasar"), a non-governmental organization formed in Kurdistan Region of Iraq. The planting of trees in Erbil and its vicinity by Hasar has already commenced and as of the date of this report in excess of 315,000 saplings have been planted over the last 2 planting seasons. ShaMaran has started the process for certification of carbon credits for this significant reforestation project and related activities which is a first-of-its-kind in Kurdistan. These credits will be used by the Company to offset its carbon emissions in the Atrush and Sarsang Blocks. According to the Company's environmental consultants, the Erbil reforestation project is breaking new ground and is unique in the MENA region on many levels, not least in the intent to offset Scope 1 and 2 emissions through a local, in-country initiative. Over the next year, ShaMaran plans to develop a detailed energy transition strategy to achieve net carbon neutrality. Future potential investment decisions by the Company in its growth plans will be carefully evaluated for alignment with that strategy and its objectives.

ShaMaran as part of the Atrush joint venture has been advancing the deployment of a gas solution to meet its commitment to bettering the environment in Kurdistan. The Sarsang joint venture is working to define the scope, alternatives and costs to advance a gas handling solution as per agreed terms with the KRG for Sarsang Block.

With the risks and uncertainties disclosed in this MD&A, together with the risks disclosed in the Company's Annual Information Form dated May 1, 2023, 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 and Sarsang interests, please refer to the Company's Annual Information Form for the year ended December 31, 2022, 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

Reserves and Resources

On February 16, 2023, the Company reported estimated reserves and contingent resources for the Atrush and Sarsang fields as at December 31, 2022, as reported by the Company's independent reserves and resources evaluator, McDaniel & Associates Consultants Ltd. ("McDaniel").

- Grew the Company's gross 2P reserves[6] by 225% from 30.4 MMbbls at December 31, 2021 to 68.3 MMbbls at December 31, 2022;
- Achieved a ShaMaran record high 2P net reserves replacement ratio[2] of 950%[7];
- Increased the Company's net unrisked best estimate of contingent oil resources ("2C")[8] nearly 20% from the 2021 estimate of 34.8 MMbbls to 41.5 MMBbls as at December 31, 2022, mainly due to the closing of the Sarsang Acquisition;
- Extended the Company's 2P Reserves Life Index[9] to nearly 12 years; and
- Reported total discovered oil in place has a low estimate of 2.3 billion barrels, a best estimate of 2.8 billion barrels and a high estimate of 3.8 billion barrels for Atrush and Sarsang Blocks combined.

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, 2022 and available in the Company's profile on SEDAR at www.sedar.com

Production

		Three months ended March 31		Three months ended December 31
		2023	2022	2022
Average daily oil production – gross 100% field (Mbopd)				
- Atrush		30.6*	38.8	32.7
- Sarsang (from September 15, 2022)		36.2*	-	43.0
Total		**66.8***	**38.8**	**75.7**
Oil sales – gross 100% field (Mbbl)				
- Atrush		2,729	3,493	3,004
- Sarsang (from September 15, 2022)		3,153	-	3,959
Total		**5,882**	**3,493**	**6,963**
ShaMaran's oil sales entitlement (Mbbl)				
- Atrush	27.6%	361	464	398
- Sarsang (from September 15, 2022)	18%	356	-	447
Total		**717**	**464**	**845**

*Q1 2023 average daily oil production includes production in March 2023 that was put into storage due to the pipeline shutdown. Whereas Atrush only has minimal storage capacity and production was shut in shortly after the pipeline closure, Sarsang production continued at reduced rates due to availability of storage and trucking capacity.

Atrush production for Q1 2023 was 21% lower compared to Q1 2022, and 6% lower compared to Q4 2022. The reduction to Q4 2022 was primarily due to export pipeline shutdowns; February 6, 2023, relating to the Turkish earthquake, and the ongoing pipeline shutdown which was initiated on March 25, 2023. Atrush was producing at an average rate of 35,600bopd over the seven days prior to the March pipeline shutdown.

In October 2022 the Atrush production well, CK-19, was spudded from the Chamanke C Pad. Targeting the Upper Jurassic Sargelu formation, the well came online in February 2023 and was producing, water free, at rates of approximately 3,500 bopd prior to the export pipeline shutdown in March 2023.

[6] Reserves estimates, contingent resource estimates and estimates of future net revenue in respect of ShaMaran's oil and gas assets in the Atrush Block are effective as at December 31, 2022, and are included in the report prepared by McDaniel & Associates Consultants Ltd., an independent qualified reserves evaluator, in accordance with National Instrument 51-101 – *Standards of Disclosure for Oil and Gas Activities* (NI 51-101) and the Canadian Oil and Gas Evaluation Handbook (the COGE Handbook) and using McDaniel's January 1, 2023 price forecasts. Certain abbreviations and technical terms used in this MD&A are defined or described under the heading "Other Supplementary Information".

[7] 2P Net Reserves Replacement Ratio defined as the ratio of reserves additions to production during the year including impacts of acquisitions and dispositions.

[8] 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.

[9] 2P Reserve Life Index is defined as the Company reserves divided by the Company December 2022 annualized production.

The CK-20 production well was spudded from Chamanke E Pad in February 2023. The well was drilled to depth and completed over the Upper Jurassic in April 2024. The well is expected to come online for production in Q2 2023[10].

Sarsang production for Q1 2023 was 16% lower compared to Q4 2022. The Sarang Acquisition closed on September 14,2022, therefore there is no comparison for Q1 2022.

The reduction to Q4 2022 was primarily due to export pipeline shutdowns; February 6, 2023, relating to the Turkish earthquake, and the ongoing pipeline shutdown which was initiated on March 25, 2023. In addition, Sarsang had a scheduled shutdown in February 2023 as part of the connection of an additional production facility to the export pipeline.

Sarsang was producing at an average rate of 42,000 bopd over the seven days prior to the March pipeline shutdown.

The ST-A2 production well was spudded in February 2023 and drilled to total depth of 3450m in the Kurra Chine B formation. The well was completed in March and is expected to come online in Q2 2023[10].

The ST-AW1 water disposal well was spudded and drilled to total depth of 2332m in the Butmah formation in March 2023. The well was completed in April 2023 and is expected to come online in Q2 2023[10].

Operational Outlook

As highlighted above, the Board has suspended the 2023 operational guidance until further notice. The normal resumption of operations in both assets and execution of the approved Work Plan and Budgets is subject to a number of criteria linked to the restart of the export pipeline and production payments, including the overdue amounts related to sales between October 2022 and March 2023.

[10] Subject to the resumption of (i) pipeline exports, (ii) field operations and (iii) regular payments for oil sales.

FINANCIAL REVIEW

Financial Results

Selected Quarterly Financial Information

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

USD Thousands (except per share data)	Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q1 2022	Q4 2021	Q3 2021	Q2 2021
Continuing operations:								
Revenue	**43,380**	53,173	39,812	44,844	38,836	27,439	29,070	25,208
Cost of goods sold	**(21,282)**	(37,979)	(10,952)	(10,636)	(11,157)	(14,777)	(17,050)	(10,255)
Net Gain on Sarsang Acquisition	**360**	9,229	50,852	-	-	-	-	-
General and admin expense	**(3,361)**	(3,682)	(2,275)	(2,359)	(1,593)	(2,645)	(1,844)	(1,804)
Share based payments	**(222)**	(549)	(212)	(176)	(1,401)	(295)	(198)	(469)
Depreciation and amortization	**(58)**	(54)	(55)	(55)	(54)	(51)	(56)	(55)
Credit loss provision	**(1,421)**	127	(1,492)	(1,897)	(611)	2,038	-	-
Finance cost	**(9,700)**	(9,686)	(11,809)	(8,972)	(9,060)	(7,638)	(9,904)	(6,054)
Finance income	**1,923**	1,848	2,601	435	139	26	9	276
Income tax expense	**(20)**	(80)	(42)	(14)	(19)	(36)	(8)	(13)
Net income	**9,599**	**12,347**	**66,428**	**21,170**	**15,080**	**4,061**	**19**	**6,834**
EBITDAX	**30,227**	39,624	32,626	37,339	30,471	18,456	16,017	18,402
Net income in $ per share								
- Basic	**0.003**	0.004	0.024	0.009	0.007	0.002	-	0.003
- Diluted	**0.003**	0.004	0.023	0.008	0.006	0.002	-	0.003

EBITDAX[11] is calculated as the net result before financial items, taxes, depletion of oil and gas properties, impairment costs, depreciation and exploration expenses and adjusted for non-recurring profit/loss on sale of assets and other income. Explanations of the significant variances between periods are provided in the following sections.

Summary of Principal Changes in the First Quarter Financial Information

The $9.6 million net income generated in Q1 2023 was primarily driven by the newly acquired Sarsang asset contributing for the full quarter to the gross margin on oil, however revenues were reduced due to lower average net oil prices and lower production. Net income was also reduced by the increased credit loss provision due to the increase in accounts receivables. The income and expenses in the first quarter are explained in more detail in the following sections.

[11] 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.

EBITDAX - Non-IFRS Measures

The Company generated a strong $30.3 million of EBITDAX in Q1 2023, as shown in the following table, continuing to underline the profitability of the Company in the current oil price environment.

	Three months ended Mar 31	
USD Thousands	2023	2022
Revenue	43,380	38,836
Lifting costs	(9,461)	(5,331)
Other costs of production	(109)	(40)
General and administrative expense	(3,361)	(1,593)
Share based payments	(222)	(1,401)
EBITDAX	**30,227**	**30,471**

Gross margin on oil sales

	Three months ended Mar 31	
USD Thousands	2023	2022
Revenue from oil sales	43,380	38,836
Lifting costs	(9,461)	(5,331)
Other costs of production	(109)	(40)
Depletion costs	(11,712)	(5,786)
Cost of goods sold	**(21,282)**	**(11,157)**
Gross margin on oil sales	**22,098**	**27,679**

Revenue from oil sales relates to the Company's entitlement share of oil sales from the Atrush and Sarsang Blocks (Sarsang sales are included from September 15, 2022). The increase in revenues in Q1 2023 compared to Q1 2022 was mainly driven by the inclusion of Sarsang production, partially offset by the lower average net oil prices. Overall, Q1 2023 production was sold at an average net oil price of $60.53 per barrel after deducting the discount for oil quality and transportation costs which compares to $85.80 for oil sales made in Q1 2022. As stated above, revenue for both Atrush and Sarsang is based on KBT pricing from September 1, 2022, reflective of the terms of new lifting agreements proposed by the KRG for both assets. The lower oil prices resulted in reduced revenues in the quarter of $18 million and the higher production increased revenues by $22 million, compared to Q1 of the previous year.

Lifting costs are comprised of the Company's share of expenses related to the production of oil from the Atrush and Sarsang Blocks including operation and maintenance of wells and production facilities, insurance and the respective Operator's related support costs as charged to the Company. Lifting costs in the quarter are significantly higher in Q1 2023 compared to Q1 2022 due to the inclusion of Sarsang lifting costs. For Q1 2023 the average lifting cost per barrel of oil produced was $7.04 per barrel (2022: $5.53 per barrel). The increase per barrel relates mainly to the inclusion of Sarsang which includes payment for the Company's share of KRGs lifting costs and the reduced production after the pipeline shutdown.

Other costs of production include the Company's share of production bonuses and other costs prescribed under the Atrush and Sarsang PSCs. These costs have remained low in Q1 2023.

Depletion costs have significantly increased due to the impact of including depletion for the Sarsang asset.

Gross margin on oil sales was lower in Q1 2023 mainly due to the inclusion of Sarsang's revenue and costs, partially offset by lower revenues as detailed above.

General and administrative expense

USD Thousands	Three months ended Mar 31 2023	2022
Legal, accounting and audit fees	1,068	10
Salaries and benefits	989	673
Management and consulting fees	602	362
General and other office expenses	194	176
Corporate Sponsorship	171	200
Travel expenses	170	78
Listing costs and investor relations	167	94
General and administrative expense	**3,361**	**1,593**

The increase in general and administrative expenses in Q1 2023 is mainly due to Sarsang and one-off business development legal and consulting fees incurred in 2023.

Share based payments expense

USD Thousands	Three months ended Mar 31 2023	2022
Option expense	158	441
RSU expense	239	434
DSU (recovery)/expense	(175)	526
Total share-based payments	**222**	**1,401**

The share-based payments expense relates to the vesting of stock options, granted deferred share units ("DSUs") and restricted share units ("RSUs"). At March 31, 2023 there was in total 82,183,000 outstanding stock options (December 31, 2022: 82,740,000), 10,243,337 RSUs (December 31, 2022: 22,123,339) granted to certain senior officers and other eligible persons of the Company and 11,814,611 DSUs (December 31, 2022: 11,814,611) granted to ShaMaran's non-executive directors. DSUs are revalued each quarter end resulting in an increase or decrease to their valuation depending on the share price. 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 Mar 31 2023	2022
Depreciation and amortization expense	58	54

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.

Credit loss provision

USD Thousands	Three months ended Mar 31 2023	2022
Credit loss provision	1,421	611

The Company has reassessed the expected credit losses of loans and receivables owed from the KRG at the end of the quarter. The Company expects to recover the full nominal value of such loans and receivables, however a provision remains to reflect credit risk.

Finance income

USD Thousands	Three months ended Mar 31 2023	2022
Interest on cash deposits	992	86
Interest on Company Bonds	931	16
Total interest income	**1,923**	**102**
Foreign exchange gain	-	37
Total finance income	**1,923**	**139**

Finance cost

USD Thousands	Three months ended Mar 31 2023	2022
Interest /amortization charges on bonds	9,723	8,594
Amortization of the related party loan	497	674
Re-measurement of contingent consideration	138	-
Amortization of 2023 bond transaction costs	-	243
Total borrowing costs	**10,358**	**9,511**
Lease – interest expense	1	7
Interest expenses	-	36
Unwinding discount on decommissioning provision	(103)	(353)
Total finance costs before borrowing costs capitalized	**10,256**	**9,201**
Borrowing costs capitalized	(556)	(141)
Finance cost	**9,700**	**9,060**

Interest and amortization charges during Q1 2023 represents the amortization, transaction costs and interest on the $300 million bond, with a 4-year tenor due July 2025 and priced at 12% fixed semi-annual coupon (the "2025 Bond"). The first quarter of 2022 represents interest on the initial 2025 Bond issue amount of $111.5 million plus interest on $175 million of the ShaMaran bond issued in 2018 that carried a 12% fixed semi-annual coupon and was due to mature on July 5, 2023 (the "2023 Bond").

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

For further information on the Company's borrowings refer to the discussions in the section below entitled "Borrowings" and "Loan from related party".

Income tax expense

USD Thousands	Three months ended Mar 31 2023	Three months ended Mar 31 2022
Income tax expense	20	19

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 Expenditures

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 the Atrush PSC and the fair value of the Company's share of the Sarsang PSC 2P reserves as estimated by the Company's independent qualified reserves evaluator, McDaniel. The movements in PP&E are explained as follows:

	Three months ended March 31, 2023			Year ended December 31, 2022		
USD Thousands	Oil and gas assets	Office equipment	Total	Oil and gas assets	Office equipment	Total
Opening net book value	**302,217**	**167**	**302,384**	**138,804**	**167**	**138,971**
Additions	11,613	-	11,613	31,291	67	31,358
Sarsang Acquisition	-	-	-	178,487	-	178,487
Depletion and depreciation expense	(11,712)	(13)	(11,725)	(46,365)	(67)	(46,432)
Net book value	**302,118**	**154**	**302,272**	**302,217**	**167**	**302,384**

During the first three months of 2023, movements in PP&E were comprised of general additions of $11.6 million (2022 full year: $31.4 million general additions plus $178.5 million Sarsang Acquisition), which included capitalized borrowing costs of $0.6 million (2022 full year: $1.5 million), net of depletion and depreciation expense of $11.7 million (2022 full year: $46.4 million) which resulted in a net decrease to PP&E assets of $0.1 million.

Financial Position and Liquidity

Loans and receivables

At March 31 2023, the Company had loans and receivables outstanding as follows:

USD Thousands	At March 31, 2023	At December 31, 2022
Accounts receivable on oil sales	102,250	95,481
Credit Loss Provision – transportation costs	(3,695)	(3,695)
Credit Loss Provision	(4,928)	(3,507)
Total loans and receivables	**93,627**	**88,279**

The $102.3 million of accounts receivable on oil sales at March 31, 2023, relates to deliveries from October 2022 through to March 2023. At the date of this MD&A, no further payments were received by the Company relating to the receivable's balances outstanding at March 31, 2023. There are some uncertainties regarding the timing of the payment of the current accounts receivables on oil sales. The Company (together with other International Oil Companies) remains in discussions with the KRG about the appropriate recovery mechanism for these receivables, however in line with precedents full recovery is expected.

The Company has also provided for a credit loss provision for all receivables owed to the Company from the KRG. Full recovery is expected however the general provision in place is to reflect credit risk and is reassessed each quarter end.

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

Borrowings

On July 16, 2021, the Company announced the successful placement of a new $300 million 2025 Bond. The 2025 Bond shall be partially amortized in instalments with $22.5 million due every 6 months from July 2023 and the remaining balance due at maturity. The 2025 Bond was issued at a price of 98.5% of nominal value which was applicable to both new money under the Initial Issue Amount of $111.5 million in July 2021 and the refinancing of $175 million of existing debt (the 2023 Bond) in September 2022.

Following the closing of the Sarsang Acquisition the Company announced on September 27, 2022, that the Company's 2023 Bond was exchanged for its 2025 Bond at 2% premium, in accordance with the 2025 Bond Terms. The existing debt that was refinanced into the new bond included $7.2 million of the total $22.8 million debt owed by the Company to Nemesia S.à.r.l. ("Nemesia") with the $15.6 million balance remaining on amended terms.

During 2021 and 2022 the Company purchased its own Bonds in the market at commercially attractive rates. At March 31, 2023, the Company held $30.7 million of its own 2025 Bond (2022: $30.7 million). These Bonds have not been retired.

At March 31, 2023, $58.5 million of restricted cash is held in a Debt Service Retention Account ("DSRA"). As per the bond terms, this amount represents a full year of interest payments plus amortization instalments relating to the 2025 Bond.

The movements in borrowings are explained as follows:

USD Thousands	At March 31, 2023	At December 31, 2022
Opening balance	**269,145**	**296,839**
2025 bond issued	-	188,528
Interest/amortization charges	9,723	35,544
Amortization of bond transaction costs	-	2,486
2025 Bond discount	-	(4,092)
2025 Bond transaction costs	-	(6,261)
Bond purchases	-	(27,717)
Payments to 2023 bondholders – interest	(12,400)	(41,182)
2023 Bond amount retired	-	(175,000)
Ending balance	**266,468**	**269,145**
Non-current portion: borrowings	213,943	236,443
Current portion: amortization installments	45,000	22,500
Current portion: accrued bond interest expense	7,525	10,202

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. In exchange for the drawdown of funds the Company was required to issue monthly to Nemesia 50,000 ShaMaran shares for each $500 thousand drawn down and outstanding until the drawn amount was repaid in full together with interest (the "Loan Shares"). In addition, the Company was 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 was payable on or before July 5, 2023, and such claim for repayment is subordinated to all obligations under the Company's 2025 Bond Terms.

After the successful closing of the Sarsang Acquisition and the Bond conversion on September 27, 2022 $7.2 million of the existing $22.8 million debt was refinanced into the new 2025 Bond. The balance of $15.6 million remains as the Nemesia loan with new terms. The interest rate on the Nemesia Loan has been adjusted to match the interest rate on the 2025 Bond of 12% (which will be payable in cash semi-annually) plus an additional interest amount of 2% per annum payable in kind. The monthly common share allotment to Nemesia has been eliminated. Following the changes described above, the Nemesia loan accounting was changed accordingly.

The 2023 movements in the liquidity guarantee loan balance are explained as follows:

USD Thousands	At March 31, 2023	At December 31, 2022
Opening balance	**16,175**	**21,748**
Amortization	497	2,662
Payment to Nemesia – Interest	(645)	-
Recognize Nemesia loan on new terms	-	15,600
Derecognize Nemesia loan on old terms	-	(23,835)
Ending balance	**16,027**	**16,175**

Liquidity and Capital Resources

USD Thousands	For the three months ended March 31 2023	2022
Selected liquidity indicators		
Cash flow from operations	18,266	23,762
Positive/(negative) working capital	132,830	(56,981)
Cash in bank	99,289	183,863

Cash flow from operations of $18.3 million for Q1 2023 is down by $5.5 million from $23.8 million reported in the same period of 2022 principally due to increased costs and the delay in oil sales payments.

Working capital at March 31, 2023, was positive $132.8 million compared to negative $57 million at March 31, 2022. The increase in working capital since March 31, 2022 is principally due to the Company's bonds now being classified as a non-current liability after the closing of the Sarsang Acquisition.

Cash in bank: the overall position of the Company decreased by $6.4 million in Q1 2023, as compared to an increase of $12.2 million during the same period of 2022. The main components of the movement in funds were as follows:

- The operating activities of the Company in Q1 2023 resulted in an increase of $18.3 million in the cash position (Q1 2022: increase of $23.8 million), as explained above.
- Net cash out to investing activities in Q1 2023 were $11.5 million (2022: cash inflows from $5.6 million). Cash out to investing activities were comprised of $13.4 million for investments in the Atrush and Sarsang Block development work program net of cash inflows of $1.9 million for interest received.
- Net cash outflows to financing activities in Q1 2023 were $13.2 million (2022: cash outflows from 17.2 million) and comprised mainly of $12.4 million of interest payments to ShaMaran bondholders and $0.6 million of interest payments to Nemesia for the loan in 2023.

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

	Purchase of services three months ended March 31		Amounts owing at the balance sheet dates	
	2023	**2022**	**March 31, 2023**	**December 31, 2022**
Nemesia	459	675	346	568
Namdo Management Services Ltd	8	8	8	-
Total	**467**	**683**	**354**	**568**

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 accrue 12% interest (which will be payable in cash semi-annually) plus accrue an additional interest amount of 2% per annum payable in kind 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 2,821,287,906 outstanding shares at March 31, 2023 (2,925,528,854 shares fully diluted) and 2,821,287,906 outstanding shares at the date of this MD&A.

Details of share issuance in Q1 2023 are as follows:

- 11,880,002 RSUs vested in March 2023 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.
- 557,000 options were exercised in accordance with the Company's plan and issued to a grantee.

Share units and Stock options

The Company has established a 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 March 31, 2023, a total of 104,240,948 shares, 4% of issued share capital, had been granted of the possible 282,128,791 shares that could be granted under the plans. Under the plans, the Company may also grant performance share units ("PSUs"), RSUs or DSUs. As at March 31, 2023 and the date of this MD&A there are no PSUs outstanding. The DSU plan exists for non-executive directors of the Company.

In the first quarter of 2023, the Company did not grant any share based payments (2022 full year: a total of 20,750,000 stock options, 10,890,000 RSUs and 2,287,620 DSUs were granted).

At March 31, 2023 there were 82,183,000 stock options outstanding under the Company's employee incentive stock option plan, which represents 2.9% of the total shares outstanding at March 31, 2023. 557,000 stock options were exercised in Q1 2023 (year 2022: 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, 2022	**82,740,000**	**22,123,339**	**11,814,611**
Option shares exercised in the period	(557,000)	-	-
RSU Shares issued in the period	-	(11,880,002)	-
At March 31, 2023	**82,183,000**	**10,243,337**	**11,814,611**
Quantities vested and unexercised:			
At December 31, 2022	63,939,995	-	11,814,611
At March 31, 2023	73,662,997	-	11,814,611

Contractual Obligations and Commitments

Production Sharing Contracts

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

As at March 31, 2023, the outstanding commitments of the Company were as follows:

	For the year ended March 31,				
USD Thousands	2024	2025	2026	Thereafter	**Total**
Atrush and Sarsang Block development and PSC	76,139	166	166	662	**77,133**
Sarsang contingent consideration	-	-	-	15,000	**15,000**
Corporate office and other	141	22	-	-	**163**
Total commitments	**76,280**	**188**	**166**	**15,662**	**92,296**

Amounts relating to Atrush and Sarsang Block developments represent the Company's unfunded paying interest share of the proposed 2023 work program and other obligations under the PSC's. At the time of this MD&A these commitments are being revised down by the operators of both blocks, reflective of the need to respond to the shutdown of the export pipeline in March 2023.

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

Critical Accounting Policies and Estimates

The unaudited condensed 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 depletion and depreciation that would have been charged since the impairment.

In 2023 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 respective Operator; and risks associated with international operations.

The Company's project is in the development 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 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 production in Kurdistan is dependent upon the KRG as the sole buyer of the oil production from both Atrush and Sarsang Blocks and its ability to export and sell production outside of Iraq. Recently the KRG asked that the reference price in the lifting agreements for all Kurdistan producing fields be changed to KBT, the Kurdish blend sold at Ceyhan Turkey, instead of Dated Brent. The partners in the Atrush JV are considering this request, whereas the partners in the Sarsang JV have signed an amended lifting agreement effective from September 1, 2022 reflecting, among other items, principally this change in requested pricing reference. A decline in the price of KBT or Dated Brent, the references 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 2025 bond 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 projects 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 its non-operating projects to further manage capital expenditures.

RISK AND UNCERTAINTIES

ShaMaran is engaged in the development and production of crude oil and natural gas and its operations are subject to various risks and uncertainties 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.

Export pipeline shutdown of March 2023

On March 25, 2023, the Iraq-Turkey export pipeline was shutdown, at the request of Turkish officials, following the announcement of the ICC arbitration ruling in favour of Iraq against Turkey on the liftings of Kurdish crude from the port of Ceyhan. Discussions are underway in order to recommence oil exports via the Iraq-Turkey pipeline as soon as arrangements can be mutually agreed. In response to the situation, together with our partners in Atrush and Sarsang, we are prudently taking action to preserve liquidity through significant deferral of expenditures across the business. While we continue to believe that the pipeline shut-in is temporary and the KRG will resume exports and payments, the interruption to production and payments represents a new risk to the Company's liquidity position. Despite various public statements from both the KRG and the MoO that the pipeline restart is in the near future, there can be no certainty when the production and payments will resume.

Federal Supreme Court of Iraq Ruling

In February 2022, the Federal Supreme Court of Iraq ruled that the Kurdistan Region's 2007 Oil and Gas Law is unconstitutional. The ruling also instructed the MoO to take steps to implement the court's decision and court proceedings to invalidate the production sharing contracts of certain IOCs were launched in the Karkah Commercial Court in Baghdad. Neither the Company nor any of its subsidiaries has by the date of this MD&A been served any court documentation regarding these actions by the MoO and it is the belief of the Company that no judgment in these cases have been enforced. It is also the understanding of the Company that dialogue between the KRG and the MoO on this issue and these court cases in particular are continuing. It is noted that all Kurdistan PSCs are governed by English law and dispute/enforcement actions (if any) are mandated as per Kurdistan PSC terms to be conducted in London under London International Court of Arbitration rules. At the date of this MD&A, this court's actions have not impacted any of the Company's operations and the Company is continuing to monitor the situation closely.

Political uncertainty exists in Kurdistan and Iraq where ShaMaran's assets are located. While Kurdistan is a federally recognized semi-autonomous political region in Iraq, ShaMaran's business in Kurdistan may be influenced by political developments between the KRG and the Iraq Federal Government, as well as political developments of neighbouring states within the MENA region, Turkey, and surrounding areas. Kurdistan and Iraq have a history of political and social instability. As a result, the Company is subject to political, economic and other uncertainties that are not within its control. These uncertainties include, but are not limited to, changes in government policies and legislation, adverse legislation or determinations or rulings by governmental and judicial authorities and disputes between the KRG and Iraq Federal Government and politically-motivated militia activity such as drone attacks against oil and gas facilities in Kurdistan. There is a risk that some levels of authority of the KRG, and corresponding systems in place, could be transferred in the future to the Iraq Federal Government or one of its ministries or authorities or new modes of administering the Kurdistan oil and gas industry might be agreed. Changes to the incumbent political regime could result in delays in operations and additional costs which could materially adversely impact the operations and future prospects of the Company and could have a material adverse effect on the Company's business and financial condition. As at the date of this MD&A, the Company further notes that there have been numerous public reports that discussions are also on-going between the KRG and Federal Government to agree to terms for a new Federal Petroleum Law to address the FSC ruling of February 2022.

Russia-Ukraine conflict

The continuing conflict between Russia and the Ukraine continues to exacerbate global oil market supply shortage and the profound effects of this crisis are likely to be long lasting as consumers and producers alike reshape their thinking around access to resources and security of supply. The Company notes the implications for commodity prices and potential interruptions of supply chains and third-party services from this ongoing conflict. The Company is also monitoring international sanctions and trade control legislation in order to mitigate any potential impact on the Company's operations. When the KRG purchases oil production from Atrush and Sarsang Blocks and sells it at Ceyhan primarily in the Mediterranean crude market, the Russia-Ukraine conflict will indirectly impact the Company's results. Russian sales of heavily discounted Urals crude barrels in the Mediterranean crude market have resulted in lower realized prices for the KRG crude, an impact that may continue in the future so long as KBT pricing is applied.

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 2022 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.

ADDITIONAL INFORMATION

Additional information related to the Company, including its 2022 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 August 9, 2023 its financial statements for the six months ending June 30, 2023.

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 months ended March 31, 2023

Expressed in thousands of United States dollars	Note	For the three months ended March 31, 2023	2022
Revenues	5	**43,380**	**38,836**
Cost of goods sold:			
Lifting costs	6	(9,461)	(5,331)
Other costs of production	6	(109)	(40)
Depletion	6	(11,712)	(5,786)
Gross margin on oil sales		**22,098**	**27,679**
Depreciation and amortization expense		(58)	(54)
Share based payments expense	18	(222)	(1,401)
Credit loss provision		(1,421)	(611)
General and administrative expense	7	(3,361)	(1,593)
Income from operating activities		**17,036**	**24,020**
Bargain purchase gain on acquisition adjustment		**360**	-
Finance income	8	1,923	139
Finance cost	9	(9,700)	(9,060)
Net finance cost		**(7,777)**	**(8,921)**
Income before income tax expense		**9,619**	**15,099**
Income tax expense	10	(20)	(19)
Income for the period		**9,599**	**15,080**
Other comprehensive income			
Items that may be reclassified to profit or loss:			
Currency translation differences		-	(19)
Total other comprehensive income		-	**(19)**
Total comprehensive income for the period		**9,599**	**15,061**
Income in dollars per share:			
Basic		0.003	0.007
Diluted		0.003	0.007

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

Condensed Interim Consolidated Balance Sheet (unaudited)

As at March 31, 2023 and December 31, 2022

Expressed in thousands of United States dollars	Note	March 31, 2023	December 31, 2022
ASSETS			
Non-current assets			
Property, plant and equipment	*11*	302,272	302,384
Right-of-use asset		163	196
Intangible assets		11	15
		302,446	**302,595**
Current assets			
Loans and receivables	*12*	93,627	88,279
Cash and cash equivalents, restricted	*14*	59,147	36,457
Cash and cash equivalents, unrestricted		40,142	69,273
Other current assets		1,216	2,089
		194,132	**196,098**
TOTAL ASSETS		**496,578**	**498,693**
LIABILITIES			
Non-current liabilities			
Borrowings	*14*	213,943	236,443
Provisions	*16*	30,566	32,926
Loan from related party	*15*	16,027	16,175
Cash-settled deferred share units	*18*	611	785
Pension liability		396	401
Lease liability		22	53
		261,565	**286,783**
Current liabilities			
Borrowings	*14*	45,000	22,500
Accounts payable and accrued expenses	*13*	8,605	15,286
Accrued interest expense on bonds	*14*	7,525	10,202
Lease liability		136	138
Current tax liabilities		36	90
		61,302	**48,216**
EQUITY			
Share capital	*17*	671,002	670,250
Share based payments reserve	*18*	10,287	10,621
Cumulative translation adjustment		21	21
Accumulated deficit		(507,599)	(517,198)
		173,711	**163,694**
TOTAL EQUITY AND LIABILITIES		**496,578**	**498,693**

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

Signed on behalf of the Board of Directors

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

/s/Chris Bruijnzeels
Chris Bruijnzeels, Director

Condensed Interim Consolidated Statement of Cash Flow (unaudited)

For the three months ended March 31, 2023

Expressed in thousands of United States dollars	Note	For the three months ended March 31, 2023	2022
Operating activities			
Income for the period		**9,599**	**15,080**
Adjustments for non-cash related items:			
Depreciation, depletion and amortization expense		11,770	5,840
Borrowing costs – net of amount capitalized		10,447	9,370
Share based payment expense		185	1,313
Foreign exchange gain	*8*	-	(37)
Unwinding discount on decommissioning provision		(103)	(353)
Bargain purchase gain adjustment		(360)	-
Interest income	*8*	(1,923)	(102)
Changes in other current assets		873	(187)
Changes in current tax liabilities		(54)	(15)
Changes in pension liability		(1)	-
Changes in accounts receivables on oil sales		(5,348)	(5,015)
Changes in accounts payable and accrued expenses		(6,819)	(2,132)
Net cash inflows from operating activities		**18,266**	**23,762**
Investing activities			
Loans – payments received		-	6,772
Interest received on cash deposits	*8*	1,923	102
Purchase of property, plant and equipment		(13,452)	(1,228)
Net cash inflows from investing activities		**(11,529)**	**5,646**
Financing activities			
Principal element of lease payments		(122)	(31)
Payments to bondholders and related party – interest	*14,15*	(13,045)	(17,188)
Net cash outflows to financing activities		**(13,167)**	**(17,219)**
Effect of exchange rate changes on cash and cash equivalents		(11)	8
Change in cash and cash equivalents		**(6,441)**	**12,197**
Cash and cash equivalents, beginning of the year		105,730	171,666
Cash and cash equivalents, end of the period*		**99,289**	**183,863**
***Inclusive of restricted cash**	*14*	**59,147**	**118,656**

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

Condensed Interim Consolidated Statement of Changes in Equity (unaudited)

For the three months ended March 31, 2023

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, 2022	**640,521**	**9,446**	**2,490**	**(20)**	**(633,899)**	**18,538**
Total comprehensive income / (loss) for the period:						
Income for the period	-	-	-	-	15,080	15,080
Other comprehensive loss	-	-	-	(19)	-	(19)
Transactions with owners in their capacity as owners:						
Share based payments expense	-	214	-	-	-	214
Loan Shares issued	393	-	(393)	-	-	-
RSU Shares issued	662	-	-	-	-	662
	1,055	214	(393)	(19)	15,080	15,937
Balance at March 31, 2022	**641,576**	**9,660**	**2,097**	**(39)**	**(618,819)**	**34,475**
Balance at December 31, 2022	**670,250**	**10,621**	**-**	**21**	**(517,198)**	**163,694**
Total comprehensive income for the period:						
Income for the period	-	-	-	-	9,599	9,599
Transactions with owners in their capacity as owners:						
Share based payments expense (excluding DSU, Note 18)	-	(334)	-	-	-	(334)
Options exercised	38	-	-	-	-	38
RSU Shares issued	714	-	-	-	-	714
	752	(334)	-	-	9,599	10,017
Balance at March 31, 2023	**671,002**	**10,287**	-	**21**	**(507,599)**	**173,711**

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 Suite 2900, 550 Burrard Street, Vancouver, British Columbia V6C 0A3. 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 the following interests in production sharing contracts:

- An 27.6% non-operated participating 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.
- An 18% non-operated participating interest (22.5% paying interest) in the Sarsang Production Sharing Contract ("Sarsang PSC") in Kurdistan. This interest is consolidated in the Company financial statements from September 14, 2022, when the Company closed the acquisition of TEPKRI Sarsang A/S, a subsidiary of TotalEnergies S.E. (the "Sarsang Acquisition"). Oil production on the Sarsang block commenced in Q1 2013.

2. Basis of preparation and going concern

a. Basis of preparation

These unaudited condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") 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 unaudited condensed interim consolidated financial statements are based on IFRS which were outstanding and effective as of May 10, 2023, the date these unaudited condensed interim consolidated financial statements were approved and authorized for issuance by the Company's board of directors ("the Board").

b. Going concern

These unaudited condensed interim consolidated financial statements have been prepared on the going concern basis which assumes that the Company will be able to realize its assets and liabilities in the normal course of business as they come due in the foreseeable future. There are some uncertainties regarding the timing of the payment of the current accounts receivables on oil sales, refer to Note 12. The Company (together with other International Oil Companies ("IOCs")) remains in discussions with the Kurdistan Regional Government ("KRG") about the appropriate recovery mechanism for these receivables, however in line with precedents full recovery is expected. The Company has forecasted to have sufficient cash in the next 12 months to fund the Company's costs.

c. Significant accounting policies

These consolidated 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, 2022.

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, 2022.

Refer to Note 2b 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. Revenues

Revenues in the first quarter of 2023 relate to the Company's entitlement share of oil from Atrush and Sarsang sold to the KRG. Revenues in the first quarter of 2022 relate only to the Company's entitlement share of oil from Atrush as the Sarsang Acquisition closed in the third quarter of 2022. The Company holds a 27.6% interest in Atrush and a 18% interest in Sarsang. Production from the fields is delivered to the KRG's Feeder Pipeline for onward export to Ceyhan, Turkey.

Gross exported oil volumes in the first three months of 2023 were 5.9MMbbls (2022: 3.5MMbbls) and the Company's entitlement share was approximately 0.7MMbbls (2022: 0.5MMbbls) which were sold with an average netback price of $60.53 per barrel (2022: $85.80). The Company uses export prices based on KBT oil price for both assets, with a discount for estimated oil quality adjustments and all local and international transportation costs. Even though TAQA Atrush B.V. ("TAQA"), the Operator of the Atrush Block, is still negotiating with the KRG the terms of a new lifting agreement, the terms are expected to be similar to those of the Sarsang signed lifting agreement. Revenue has been recognized accordingly from September 1, 2022, the anticipated effective date of the new lifting agreement. ShaMaran's oil entitlement share is based on export prices and on PSC terms covering allocation of profit oil, cost oil and capacity building payments owed to the KRG.

On March 25, 2023, the Iraq-Turkey export pipeline ("ITP") was shutdown, at the request of Turkish officials, following the announcement of the International Chamber of Commerce ("ICC") arbitration ruling in favour of Iraq against Turkey on the use of the pipeline. Discussions are underway in order to recommence oil exports via the ITP as soon as arrangements can be mutually agreed. At the date of these financial statements the ITP has not been re-opened but is expected in the near future, see Note 22 for further details.

Refer also to Note 12.

6. Cost of goods sold

Lifting costs are comprised of the Company's share of expenses related to the production of oil from the Atrush and Sarsang blocks including operation and maintenance of wells and production facilities, insurance, and the respective operator's related support costs as charged to the Company. The increase in the first quarter of 2023 lifting costs over the amount in the first quarter of 2022 was mainly due to the inclusion of Sarsang's lifting costs. Other costs of production include the Company's share of production bonuses and its share of other costs prescribed under the PSC's.

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

Refer also to Notes 5 and 11.

7. General and administrative expense

General and administrative expenses principally include the Company's cost of technical and administrative personnel, travel, office, business development and stock exchange listing and regulatory related costs. The increase in the first quarter of 2023 compared to the first quarter of 2022 is mainly due to Sarsang and one-off business development legal and consulting fees.

Expressed in thousands of United States dollars

8. Finance income

	For the three months ended March 31, 2023	2022
Interest on cash deposits	992	16
Interest on Company Bonds	931	86
Total interest income	**1,923**	**102**
Foreign exchange gain	-	37
Total finance income	**1,923**	**139**

Refer also to Note 14.

9. Finance cost

	For the three months ended March 31, 2023	2022
Interest/amortization charges on bonds	9,723	8,594
Amortization of the related party loan	497	674
Re-measurement of contingent consideration	138	-
Amortization of 2023 Bond transaction costs	-	243
Total borrowing costs	**10,358**	**9,511**
Lease – interest expense	1	7
Interest expenses	-	36
Unwinding discount on decommissioning provision	(103)	(353)
Total finance costs before borrowing costs capitalized	**10,256**	**9,201**
Borrowing costs capitalized	(556)	(141)
Total finance cost	**9,700**	**9,060**

Interest and amortization charges during the first quarter of 2023 represents the amortization, transaction costs and interest on the $300 million bond, with a 4-year tenor due July 2025 and priced at 12% fixed semi-annual coupon (the "2025 Bond"). The first quarter of 2022 represents interest on the initial 2025 Bond issue amount of $111.5 million plus interest on $175 million of the ShaMaran bond issued in 2018 that carried a 12% fixed semi-annual coupon and was due to mature on July 5, 2023 (the "2023 Bond"). Refer to Note 14.

Refer to Notes 14 and 15 regarding the 2023 Bond transaction costs and related party loan.

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

10. Taxation

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

Expressed in thousands of United States dollars

11. 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 the Atrush PSC and the fair value of the Company's share of the Sarsang PSC 2P reserves as estimated by the Company's independent qualified reserves evaluator, McDaniel & Associates Consultants Ltd. ("McDaniel") plus development costs relating to the Company share of the Sarsang PSC since the acquisition.

Q1 2023 was very active operationally for both Atrush and Sarsang, with significant drilling and further debottlenecking and optimization of facilities in both fields (increasing oil and water handling capacity). Capital expenditure during the quarter also included the ordering of long lead items for gas flaring reduction project at Atrush. During the first three months of 2023, movements in PP&E were comprised of general additions of $11.6 million (2022 full year: $31.4 million general additions plus $178.5 million Sarsang Acquisition), which included capitalized borrowing costs of $0.6 million (2022 full year: $1.5 million), net of depletion and depreciation expense of $11.7 million (2022 full year: $46.4 million) which resulted in a net decrease to PP&E assets of $0.1 million.

Refer also to 6.

12. Loans and receivables

At March 31, 2023, the Company had loans and receivables outstanding as follows:

	At March 31, 2023	At December 31, 2022
Accounts receivable on oil sales	102,250	95,481
Credit Loss Provision – transportation costs	(3,695)	(3,695)
Credit Loss Provision	(4,928)	(3,507)
Total loans and receivables, net of provisions	**93,627**	**88,279**

The $102.3 million of accounts receivable on oil sales at March 31, 2023, relates to deliveries from October 2022 through to March 2023. During the quarter $37.1 million was received from the KRG for August 2022 and September 2022 oil sales. At the date these financial statements were approved, no further payments were received by the Company relating to the receivable's balances outstanding at March 31, 2023.

The Company has provided for a credit loss provision for all receivables owed to the Company from the KRG. The Company expects to recover the full nominal value of receivables, however a provision is in place to reflect credit risk. The provision is reassessed each quarter end.

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

Refer also to Note 5.

13. Accounts payable and accrued expenses

	At March 31, 2023	At December 31, 2022
Payables to joint operations partners	6,442	11,049
Accrued expenses	1,536	3,333
Trade payables	627	904
Total accounts payable and accrued expenses	**8,605**	**15,286**

Expressed in thousands of United States dollars

14. Borrowings

On July 16, 2021, the Company announced the successful placement of a new $300 million 2025 Bond. The 2025 Bond shall be partially amortized in instalments with $22.5 million due every 6 months from July 2023 and the remaining balance due at maturity. The 2025 Bond was issued at a price of 98.5% of nominal value which was applicable to both new money under the Initial Issue Amount of $111.5 million in July 2021 and the refinancing of $175 million of existing debt (the 2023 Bond) in September 2022.

Following the closing of the Sarsang Acquisition the Company announced on September 27, 2022, that the Company's 2023 Bond was exchanged for its 2025 Bond at 2% premium, in accordance with the 2025 Bond Terms. The existing debt that was refinanced into the new bond included $7.2 million of the total $22.8 million debt owed by the Company to Nemesia S.à.r.l. ("Nemesia") with the $15.6 million balance remaining on amended terms. Refer to Note 15 for further detail.

During 2021 and 2022 the Company purchased its own Bonds in the market at commercially attractive rates. At March 31, 2023, the Company held $30.7 million of its own 2025 Bond (2022: $30.7 million). These Bonds have not been retired.

At March 31, 2023, $58.5 million of restricted cash is held in a Debt Service Retention Account ("DSRA") plus interest. As per the bond terms, this amount represents a full year of interest payments plus amortization instalments relating to the 2025 Bond.

The movements in borrowings are explained as follows:

	At March 31, 2023	At December 31, 2022
Opening balance:	**269,145**	**296,839**
2025 Bond issued	-	188,528
Interest/amortization charges	9,723	35,544
Amortization of 2023 Bond transaction costs	-	2,486
2025 Bond discount	-	(4,092)
2025 Bond transaction costs	-	(6,261)
Bond purchases	-	(27,717)
Payments to bondholders – interest	(12,400)	(41,182)
2023 Bond amount retired	-	(175,000)
Ending balance	**266,468**	**269,145**
Non-current portion: net borrowings	213,943	236,443
Current portion: amortization instalments	45,000	22,500
Current portion: accrued bond interest expense	7,525	10,202

Refer also to Note 9.

Expressed in thousands of United States dollars

15. 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. In exchange for the drawdown of funds the Company was required to issue monthly to Nemesia 50,000 ShaMaran shares for each $500 thousand drawn down and outstanding until the drawn amount was repaid in full together with interest (the "Loan Shares"). In addition, the Company was 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 was payable on or before July 5, 2023, and such claim for repayment is subordinated to all obligations under the Company's 2025 Bond Terms.

After the successful closing of the Sarsang Acquisition and the Bond conversion on September 27, 2022 (see Note 14) $7.2 million of the existing $22.8 million debt was refinanced into the new 2025 Bond. The balance of $15.6 million remains as the Nemesia loan with new terms. The interest rate on the Nemesia Loan has been adjusted to match the interest rate on the 2025 Bond of 12% (which will be payable in cash semi annually) plus an additional interest amount of 2% per annum payable in kind. The monthly common share allotment to Nemesia has been eliminated. Following the changes described above, the Nemesia loan accounting was changed accordingly.

The 2023 movements in the liquidity guarantee loan balance are explained as follows:

	At March 31, 2023	At December 31, 2022
Opening balance	**16,175**	**21,748**
Amortisation	497	2,662
Payment to Nemesia – Interest	(645)	-
Recognize Nemesia loan on new terms	-	15,600
Derecognize Nemesia loan on old terms	-	(23,835)
Ending balance	**16,027**	**16,175**

Refer also to Notes 9, 14, 17 and 21.

16. Provisions

	At March 31, 2023	At December 31, 2022
Opening balance	**22,077**	**18,984**
Changes in estimates and obligations incurred	32	9,779
Unwinding discount on decommissioning provision	(103)	(964)
Changes in discount and inflation rates	(2,428)	(5,722)
Total decommissioning and site restoration provisions	**19,578**	**22,077**
Contingent consideration	10,988	10,849
Total provisions	**30,566**	**32,926**

The decommissioning and site restoration provision relates to the Company's share of future costs in respect of the Company's 27.6% interest in the Atrush block and 18% interest in the Sarsang block (22.5% paying interest). The provision assumes these works will commence in the year 2032 for Atrush and the year 2039 for Sarsang.

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

Expressed in thousands of United States dollars

17. Share capital

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

	Number of shares	Share capital
At January 1, 2022	**2,215,349,663**	**640,521**
Loan Shares issued	22,572,000	1,297
RSU Shares issued	11,119,995	816
DSU Shares issued	1,566,832	111
Right Offering Shares issued, net of issuance costs	558,242,414	27,505
At December 31, 2022	**2,808,850,904**	**670,250**
RSU Shares issued	11,880,002	714
Option Shares issued	557,000	38
At March 31, 2023	**2,821,287,906**	**671,002**

As described in Note 15, the Company was required under the old Nemesia loan terms to issue to Nemesia 50,000 shares of ShaMaran for each $500 thousand drawn down per month until the drawn amount was repaid, which resulted in a total of 22,572,000 Loan Shares being issued during the year 2022 until September 27,2022.

On May 25, 2022, in connection with an offering of rights to shareholders of record on April 13, 2022 to purchase additional common shares in the Company ("Common Shares") at a subscription price of CAD 0.06825 per share (the "Rights Offering"), the Company issued an aggregate of 558,242,414 Common Shares, resulting in total gross proceeds of $30.15 million.

During 2023, 11,880,002 Restricted Share Units ("RSUs") vested and 557,000 options were exercised in accordance with the Company's Share Unit Plan (2022: 11,119,995 RSUs, 1,566,832 DSUs and nil options) and this quantity of the Company's shares were issued to plan participants. The carrying value of the RSU shares has been determined based on the Company's average closing share price over the 5-day period prior to the vesting date.

Refer to Note 18.

Expressed in thousands of United States dollars

18. Share based payments expense

The Company has established share unit plans and a share purchase option plan whereby a committee of the Company's Board may, from time to time, grant up to a total of 10% of the issued share capital to directors, officers, employees or consultants. At March 31, 2023, a total of 104,240,948 shares (4% of issued share capital) had been granted of the possible 282,128,791 shares that could be granted under the plans. The number of shares issuable under these plans at any specific time to any one recipient shall not exceed 5% of the issued and outstanding common shares of the Company. Under the plans, the Company may also grant performance share units ("PSU"), restricted share units ("RSU") or deferred share units ("DSU").

During the first quarter of 2023, the Company did not grant any share based payments (2022 full year: a total of 20,750,000 stock options, 10,890,000 RSUs and 2,287,620 DSUs were granted).

In the first quarter of 2023 a total of 11,880,002 RSUs vested and 557,000 options were exercised and the same quantity of shares were issued to plan participants (2022 full year: 10,869,995 RSUs vested and the same quantity of shares were issued to plan participants, and 2,879,486 DSUs were exercised of which 1,566,832 were redeemed in shares and the rest in cash).

The result of the movements in the first three months of 2023, are charges to the Statement of Comprehensive Income for options of $158 thousand (2022: $441 thousand), for RSUs $239 thousand (2022: $434 thousand) and for DSUs $(175) thousand (2022: $526 thousand). The carrying amount of the DSU liability at March 31, 2023, is $611 thousand (December 31, 2022: $785 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, 2022	**82,740,000**	**22,123,339**	**11,814,611**
Option Shares exercised	(557,000)	-	-
RSU Shares vested and issued	-	(11,880,002)	-
At March 31, 2023	**82,183,000**	**10,243,337**	**11,814,611**
Quantities vested and unexercised:			
At December 31, 2022	63,939,995	-	11,814,611
At March 31, 2023	73,662,997	-	11,814,611
Weighted average remaining contractual life of options:			
At December 31, 2022	2.3 years		
At March 31, 2023	2.5 years		

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

19. Financial instruments

Financial assets

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

	Fair value hierarchy [6]	Carrying and fair values [1] At March 31, 2023	At December 31, 2022
Loans and receivables[2 5]		93,627	88,279
Cash and cash equivalents, unrestricted [2]		40,142	69,273
Cash and cash equivalents, restricted [2]		59,147	36,457
Other receivables [2]		745	1,485
Total financial assets		**193,661**	**195,494**

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

Financial liabilities

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

	Fair value hierarchy [6]	Carrying values At March 31, 2023	At December 31, 2022
Borrowings [3]	Level 2	258,943	258,943
Related party loan[4]	Level 2	16,027	16,175
Accounts payable and accrued expenses [2]		8,605	15,286
Accrued interest on bonds		7,525	10,202
Current tax liabilities		36	90
Total financial liabilities		**291,136**	**300,696**

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 net borrowings at the balance sheet date is $256.5 million (December 31, 2022: $259.9 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 $15.6 million based on its nominal value.

[5] Provision's has been made to the loans and receivables, see Note 12 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

20. Commitments and contingencies

At March 31, 2023, the outstanding commitments of the Company were as follows:

	For the year ended March 31,				
	2024	**2025**	**2026**	**Thereafter**	**Total**
Atrush and Sarsang block development and PSC	76,139	166	166	662	**77,133**
Sarsang contingent consideration	-	-	-	15,000	**15,000**
Corporate office and other	141	22	-	-	**163**
Total commitments	**76,280**	**188**	**166**	**15,662**	**92,296**

Amounts relating to Atrush and Sarsang block developments represent the Company's unfunded paying interest share of the proposed 2023 work program and other obligations under the PSC's. At the time of these Financial Statements these commitments are being revised down by the operators of both blocks, reflective of the need to respond to the shutdown of the export pipeline in March 2023.

Refer to Note 22.

Also refer to Note 16 regarding the Sarsang contingent consideration.

21. Related party transactions

Transactions with corporate entities

	Purchase of services in the Three months ended March 31		Amounts owing at the balance sheet dates	
	2023	**2022**	**March 31, 2023**	**December 31, 2022**
Nemesia	459	675	346	568
Namdo Management Services Ltd	8	8	8	-
Total	**467**	**683**	**354**	**568**

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 a loan from Nemesia and the obligation to accrue 12% interest (which will be payable in cash semi annually) plus accrue an additional interest amount of 2% per annum payable in kind based on the principal balance outstanding. Refer to Note 16.

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 also to Note 9.

22. Subsequent Events

The arbitration case between Iraq and Turkey, as discussed in note 6, has lasted for several years as part of the overall dispute between the Iraq Federal Government and the KRG regarding oil exports from Kurdistan and its generation of revenue from oil sales. Following the decision and the closure of the ITP diplomatic efforts to resolve the dispute have intensified, leading to the signing of a framework agreement during April 2023 between the Iraq Federal Government and the KRG on the resumption of exports via the ITP (the "April Agreement"). It is a widely held expectation that the end of the arbitration case and the signing of the April Agreement will lead to more stable long term crude oil exports and payment for the IOC oil producers in Kurdistan.

Based upon the public statements of officials from the KRG, the Kurdistan Ministry of Natural Resources and Iraq's Ministry of Oil and discussions that senior management of the Company has had (and continues to have) with relevant officials, the Company continues to believe that the ITP shutdown will be temporary and that the KRG will be permitted in due course to resume exports and payments. The Company together with our partners in the Atrush and Sarsang blocks are each taking prudent actions to preserve liquidity through significant deferral of expenditures across the business.

DIRECTORS

Dr. Adel Chaouch
Director, President and Chief Executive Officer

Chris Bruijnzeels
Director, Chairman

Michael S. Ebsary
Director

Keith C. Hill
Director

William A.W Lundin
Director

Nicholas J. R. Walker
Director

OFFICERS

Dr. Adel Chaouch
Director, President and Chief Executive Officer

Elvis Pellumbi
Chief Financial Officer

Alex C. Lengyel
Chief Commercial Officer and
Corporate Secretary

Suzanne Ferguson
Assistant Corporate Secretary

INVESTOR RELATIONS

Chris Delange

Robert Eriksson

Renmark Financial
Communications Inc.

CORPORATE OFFICE

Suite 2000 – 885 West Georgia Street
Vancouver
British Columbia V6C 3E8 Canada
Telephone: +1 604 689 7842
Facsimile: +1 604 689 4250
Website: www.shamaranpetroleum.com

OPERATIONS and ADMINISTRATIVE OFFICE

63 Route de Thonon
1222 Vésenaz
Switzerland
Telephone: +41 22 560 8600

REGISTERED and RECORDS OFFICE

Suite 2900 – 550 Burrard Street
Vancouver, British Columbia
V6C 0A3 Canada

INDEPENDENT AUDITORS

PricewaterhouseCoopers SA,
Geneva, Switzerland

TRANSFER AGENT

Computershare Trust Company of Canada
Vancouver, Canada

STOCK EXCHANGE LISTINGS

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

Follow us on Social Media:

Instagram: @shamaranpetroleumcorp
Twitter: @shamaran_corp
Facebook: @shamaranpetroleumcorp

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

For the three months ended March 31, 2023

Expressed in thousands of United States dollars

ShaMaran Petroleum Corp.