SHAMARAN
petroleum corp

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SHAMARAN petroleum corp

Financial Report

For the three and six months ended June 30, 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.

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For the three and six months ended June 30, 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 August 9, 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 and six months ended June 30, 2023, together with the accompanying notes ("Financial Statements").

Company Overview

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

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

ShaMaran's common shares are listed on the TSX Venture Exchange in Canada and the NASDAQ First North Growth Market in Sweden. The Company is incorporated and domiciled in British Columbia, Canada under the Business Corporations Act. 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 United States dollars ("USD").

SECOND QUARTER 2023 HIGHLIGHTS AND KEY EVENTS

The Company had a strong start to 2023 with the closing of the Sarsang Acquisition in late 2022 enhancing production and reserves. The drilling of four new wells, two at Atrush Block and two at Sarsang Block, led to increasing production levels until the Iraq-Turkey pipeline ("ITP") shutdown on March 25, 2023, following the International Chamber of Commerce ("ICC") Arbitration decision. Unfortunately, the pipeline remains closed and has therefore materially impacted the production and financial results of Q2 2023. The ITP closure resulted in the complete shut-in of the Atrush Block due to the lack of trucking facilities, but the Sarsang Block continued to produce and sell oil *ad hoc* locally via trucking, resulting in sustained revenue for the Company in Q2 2023. These *ad hoc* sales are expected to continue, but the timing, quantities and prices for local sales are uncertain. The operators at both the Sarsang Block and the Atrush Block have significantly reduced capex and operating costs and continue to look for further cost savings. The Company has also reduced its General & Administrative ("G&A") spending and successfully engaged with its Bondholders in July 2023 in order to preserve liquidity and have additional balance-sheet flexibility given the current situation in Kurdistan.

Corporate Highlights:

- The closure of the ITP on March 25, 2023, had a material impact on ShaMaran's operations and financial results. The Company is actively engaging in discussions with the relevant parties for re-opening the ITP to Kurdistan oil exports;
- While Atrush is shut-in due to a lack of storage and trucking facilities, Sarsang oil production has continued at a reduced rate since late April 2023 with additional oil storage capacity secured offsite and sales to local refineries on an *ad hoc* weekly basis. Sarsang local sales vary in price and volume from week to week but are expected to continue on an *ad hoc* basis until the ITP exports resume and payment issues are resolved;
- Excluding non-recurring General and Administrative costs ("G&A"), ShaMaran achieved a cash-neutral quarter from an operating cash flow perspective due to local sales revenues and proactive cost-cutting at both the asset and corporate level; and
- The recent passage of the Iraq federal budget for 2023-2025, including a production commitment from the Kurdistan Regional Government ("KRG"), should enable regular monthly budget transfers from Iraq to the KRG, as well as normalization of relations between the region and the Federal Government of Iraq.

Financial Highlights:

	Three months ended June 30		Six months ended June 30	
USD Thousands	**2023**	**2022**	**2023**	**2022**
Revenue	6,542	44,844	49,922	83,680
Gross margin on oil sales	(4,199)	34,208	17,899	61,887
Net result	(27,199)	21,170	(17,600)	36,250
Cash flow from operations	(734)	40,720	17,532	64,482
EBITDAX	(4,876)	37,339	25,351	67,810

- Q2 2023 Sarsang oil sales went to the Kurdistan local market at an average net back price of $41.47/bbl and generated net revenues and cash payments to the Company of $6.5 million;
- Since the ITP shutdown, ShaMaran and its operating partners have cut costs (both operating and capital expenditures) at the asset level. This resulted in reduced cash calls to ShaMaran in Q2 2023 versus the original budget. The Company is actively pursuing further cost-reduction initiatives and encouraging our operating partners to pursue additional local sales to improve liquidity;
- ShaMaran has also revised its Corporate G&A spend and implemented cost-reduction initiatives in order to preserve cash. If non-recurring costs of approximately $1.1 million were excluded from the quarter's G&A costs, Q2 2023 results would have shown positive cash flow from operations. This adjusted G&A better reflects the expected run-rate going forward;
- The Company continues to engage with the KRG regarding the $96.7 million of overdue receivables for oil sales from October 2022 to March 2023 (on the basis of the KBT pricing mechanism). Since payment timing is uncertain, ShaMaran has reassessed the credit loss provision in Q2 2023, resulting in an increase to the provision by $11.6 million in the quarter; and
- At June 30, 2023, the Company had cash of $92.5 million (including restricted cash of $59.3 million), receivables from past oil sales of $96.7 million (before any provision for credit risk on overdue invoices) and gross debt of $315.6 million (including the $300 million bond and $15.6 million related party loan). Net debt was $192.4 million (including $30.7 million in ShaMaran bonds held by the Company).

Operational Highlights:

- Since the ITP shutdown, Atrush has been shut-in due to a lack of storage and trucking facilities. Sarsang production has been limited by storage capacity and the local sales market in Kurdistan, but production has continued at an average gross rate of 18 Mbopd during Q2 2023. As reported by HKN Energy Ltd. ("HKN"), Sarsang local sales during Q2 2023 averaged 13.7 Mbopd;
- HKN completed one water disposal well (ST-AW1) on the Sarsang Block, and Taqa Atrush B.V. completed one production well (CK-20) on the Atrush Block during Q2 2023. Both wells are expected to be in operation after the resumption of pipeline exports, field operations and regular payments for oil sales;
- The 2023 capital programs associated with further drilling activity and processing capacity expansion at both the Sarsang and Atrush blocks have been reduced and/or deferred completely; and
- Due to the reduced activity levels following the ITP closure, ShaMaran has suspended guidance for 2023. The Company is working with the KRG and our operating partners to address the challenges in Kurdistan and will update the market as appropriate.

Subsequent Events:

- On July 26, 2023, the Company announced that it had requested and received bondholder approval for a waiver to release cash from the 2025 Bond Debt Service Retention Account ("DSRA"). The waiver allowed the Company to use restricted cash in the DSRA to pay the bond interest and amortization obligations due on July 30, 2023; and
- At July 31, 2023, the Company had cash of $56.9 million (including restricted cash of $19.8 million), receivables from past oil sales of $96.7 million and gross debt of $293.1 million (including the $277.5 million bond and $15.6 million related party loan). Net debt was $207.8 million (including $28.4 million in ShaMaran bonds held by the Company).

OPERATIONS REVIEW

Business Overview

The second quarter of 2023 has been a challenging time for all producers (including the Company) in the KRI following the closure of the ITP by Turkish officials to comply with the ICC arbitral ruling in late March 2023. The Company and its field operators have substantially reduced field activity in the second quarter. This unfortunate situation has prevailed longer than anticipated, and the Company understands that the Iraq federal government and the Government of Turkey are in dialogue with respect to the re-opening of the ITP, but timing remains uncertain. As announced by HKN, the Sarsang field has been producing at a reduced rate and on an *ad-hoc* basis since late April 2023 and has been selling oil into the local market which generates some revenue to the Company. The Company also discussed in its Q1 2023 earnings release that field operations, associated operating expenditures as well as the majority of capital expenditure have been scaled back at both Atrush and Sarsang fields to a minimum to save costs. ShaMaran has also scaled back our G&A spending to preserve liquidity.

The enactment of the Iraq federal budget for 2023-2025 on June 21, 2023, with a monthly allocation to the KRG of 12.67% of the federal budget should improve the financial outlook for the KRG. The Company expects that the main revenue source for the KRG will remain its oil sales from ITP exports, with any deficits or excess amounts being adjusted as part of the federal budget implementation process. ShaMaran understands that discussions between the KRG and the Government of Iraq are continuing.

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 it has been reported by the press will be sold by SOMO at the port of Ceyhan.

The Company continues to work as part of the Association of the Petroleum Industry of Kurdistan and believes that a speedy reopening of the ITP for oil exports and a clear repayment and cost recovery plan that is consistent with existing contracts are necessary for the resumption of KRI oil production and in the best interest of Iraq as a whole and the KRI.

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.sedarplus.ca 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, according to the Company's independent reserves and resources evaluator, McDaniel & Associates Consultants Ltd. ("McDaniel"). Highlights include the following:

- Grew the Company's gross 2P reserves[1] 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 of 950%[2];
- Increased the Company's net unrisked best estimate of contingent oil resources ("2C")[3] nearly 20% from the 2021 estimate of 34.8 MMbbls to 41.5 MMBbls as at December 31, 2022, mainly due to the Sarsang Acquisition;
- Extended the Company's 2P Reserves Life Index[4] to nearly 12 years; and
- Reported total discovered oil in place with a low estimate of 2.3 billion barrels, best estimate of 2.8 billion barrels and high estimate of 3.8 billion barrels for the 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.sedarplus.ca.

Production

		Three months ended June 30		Six months ended June 30	
		2023	2022	**2023**	2022
Average daily oil production – gross 100% field (Mbopd)					
- Atrush		-	37.1	15.2*	38.0
- Sarsang (from September 15, 2022)		18.0*	-	27.0*	-
Total		**18.0**	**37.1**	**42.2**	**38.0**
PSC[5] Oil sales – gross 100% field (Mbbl)					
- Atrush		-	3,378	2,729	6,871
- Sarsang (from September 15, 2022)**		-	-	3,153	-
Total		**-**	**3,378**	**5,882**	**6,871**
PSC ShaMaran oil sales entitlement (Mbbl)					
- Atrush	27.6%	-	449	361	912
- Sarsang (from September 15, 2022)	18%	-	-	356	-
Total		**-**	**449**	**717**	**912**

**Average daily oil production includes production since March 2023 that was put into storage due to the pipeline shutdown. Atrush has minimal storage capacity, and therefore production was shut-in shortly after the pipeline closure. Sarsang production continued at reduced rates after the pipeline closure due to storage availability, as well as trucking capacity to enable local sales.*
*** Sarsang average daily oil sales for Q2 2023 were 13.7 Mbopd relating to local oil sales.*

[1] 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, 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".
[2] 2P Net Reserves Replacement Ratio defined as the ratio of reserves additions to production during the year including impacts of acquisitions and dispositions.
[3] 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.
[4] 2P Reserve Life Index is defined as the Company reserves divided by the Company December 2022 annualized production.
[5] Production Sharing Contract ("PSC").

The Atrush Block has had zero production since late March 2023 when the Block's oil storage capacity was reached after the pipeline shutdown on March 25, 2023. Atrush was producing at an average rate of 35,600 bopd over the seven days prior to the March 2023 pipeline shutdown.

The CK-20 production well was spudded from Chamanke E Pad in February 2023. The well was drilled to a total depth of 1,753m and completed over the Upper Jurassic in April 2024.

The Sarsang Block has continued to produce and sell locally on an *ad hoc* basis. The Sarang Acquisition closed on September 14, 2022, and therefore Q1 2022 is not comparable.

Sarsang was producing at an average rate of 42,000 bopd over the seven days prior to the March 2023 pipeline shutdown.

The ST-A2 production well was spudded in February 2023 and drilled to a total depth of 3,450m in the Kurra Chine B formation. The well was complete in March 2023 and is suspended pending simulation activities.

The ST-AW1 water disposal well was drilled to a total depth of 2,332m and completed over the Butmah formation in April 2023.

Operational Outlook

As highlighted above, ShaMaran 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 ("WP&B") is uncertain and subject to a number of criteria linked to the restart of the export pipeline and production payments, including agreement with the KRG on repayment of overdue amounts related to sales between October 2022 and March 2023.

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)	Q2 2023	Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q1 2022	Q4 2021	Q3 2021
Continuing operations:								
Revenue	**6,542**	43,380	53,173	39,812	44,844	38,836	27,439	29,070
Cost of goods sold	**(10,741)**	(21,282)	(37,979)	(10,952)	(10,636)	(11,157)	(14,777)	(17,050)
Net Gain on Sarsang Acquisition	**-**	360	9,229	50,852	-	-	-	-
General and admin expense	**(2,486)**	(3,361)	(3,682)	(2,275)	(2,359)	(1,593)	(2,645)	(1,844)
Share based payments	**(1,151)**	(222)	(549)	(212)	(176)	(1,401)	(295)	(198)
Depreciation and amortization	**(59)**	(58)	(54)	(55)	(55)	(54)	(51)	(56)
Credit loss provision	**(11,568)**	(1,421)	127	(1,492)	(1,897)	(611)	2,038	-
Finance cost	**(9,748)**	(9,700)	(9,686)	(11,809)	(8,972)	(9,060)	(7,638)	(9,904)
Finance income	**2,042**	1,923	1,848	2,601	435	139	26	9
Income tax expense	**(30)**	(20)	(80)	(42)	(14)	(19)	(36)	(8)
Net(loss)/ income	**(27,199)**	**9,599**	**12,347**	**66,428**	**21,170**	**15,080**	**4,061**	**19**
EBITDAX	**(4,876)**	30,227	39,624	32,626	37,339	30,471	18,456	16,017
Net income in $ per share								
- Basic	**(0.010)**	0.003	0.004	0.024	0.009	0.007	0.002	-
- Diluted	**(0.009)**	0.003	0.004	0.023	0.008	0.006	0.002	-

EBITDAX[6] 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 Second Quarter Financial Information

The $27.2 million net loss generated in Q2 2023 was primarily driven by the ITP shutdown, resulting in lost revenue and an increase in the credit loss provision due to the uncertainty on timing of accounts receivable being collected. The income and expenses in the second quarter are explained in more detail in the following sections.

[6] 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

	Three months ended June 30		Six months ended June 30	
USD Thousands	2023	2022	2023	2022
Revenues	6,542	44,844	49,922	83,680
Lifting costs	(7,712)	(4,930)	(17,173)	(10,261)
Other costs of production	(69)	(40)	(178)	(80)
General and administrative expense	(2,486)	(2,359)	(5,847)	(3,952)
Share based payments	(1,151)	(176)	(1,373)	(1,577)
EBITDAX	**(4,876)**	**37,339**	**25,351**	**67,810**

Gross margin on oil sales

	Three months ended June 30		Six months ended June 30	
USD Thousands	2023	2022	2023	2022
Revenue from oil sales	6,542	44,844	49,922	83,680
Lifting costs	(7,712)	(4,930)	(17,173)	(10,261)
Other costs of production	(69)	(40)	(178)	(80)
Depletion costs	(2,960)	(5,666)	(14,672)	(11,452)
Cost of goods sold	**(10,741)**	**(10,636)**	**(32,023)**	**(21,793)**
Gross margin on oil sales	**(4,199)**	**34,208**	**17,899**	**61,887**

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 decrease in revenues in Q2 2023 compared to Q2 2022 was driven by the ITP closure, resulting in no sales from the PSCs. The revenue of $6.5 million in Q2 2023 relates entirely to the *ad hoc* local oil sales from Sarsang. The oil prices for these sales are in line with the local market and at a significant discount to international benchmark prices.

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 Q2 2023 compared to Q2 2022 due to the inclusion of Sarsang, which was partially offset by reduced lifting costs due to the ITP 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 Q2 2023.

Depletion costs have significantly decreased due to no depletion costs for Atrush being recorded in Q2 2023 as depletion is calculated based on entitlement barrels. Therefore, depletion in Q2 2023 entirely relates to the Sarsang barrels produced for local oil sales.

Gross margin on oil sales was much lower in Q2 2023 mainly due to the ITP being closed during the quarter.

General and administrative expense

USD Thousands	Three months ended June 30		Six months ended June 30	
	2023	**2022**	**2023**	**2022**
Salaries and benefits	1,991	843	2,980	1,516
Management and consulting fees	381	708	983	1,070
General and other office expenses	197	178	391	354
Listing costs and investor relations	80	147	247	241
Travel expenses	49	118	219	196
Corporate sponsorship	46	-	217	200
Legal, accounting and audit fees	(258)	365	810	375
General and administrative expense	**2,486**	**2,359**	**5,847**	**3,952**
Non-recurring costs	1,057	77	1,946	545
Adjusted G&A	**1,429**	**2,282**	**3,901**	**3,407**

The increase in general and administrative expenses in Q2 2023 compared to Q2 2022 is mainly due to one-off costs relating to the departure of the former CEO, offset by savings from cost-reduction initiatives in the quarter. The increase in the six months of 2023 compared to 2022 is also mainly due to the inclusion of Sarsang and one-off business development legal and consulting fees. The adjusted G&A shows the impact of the non-recurring costs on the quarter and six months.

Share based payments expense

USD Thousands	Three months ended June 30		Six months ended June 30	
	2023	**2022**	**2023**	**2022**
Option expense	646	163	804	605
RSU expense	365	203	604	637
DSU expense /(recovery)	140	(190)	(35)	335
Total share-based payments	**1,151**	**176**	**1,373**	**1,577**

The share-based payments expense relates to the vesting of stock options, granted deferred share units ("DSUs") and restricted share units ("RSUs"). The increase in these costs during Q2 2023 versus Q2 2022 is because the 2023 grant was later in the year.

At June 30, 2023, there was 128,756,332 outstanding stock options in total (December 31, 2022: 82,740,000), 24,600,001 RSUs (December 31, 2022: 22,123,339) granted to certain senior officers and other eligible persons of the Company and 16,584,721 DSUs (December 31, 2022: 11,814,611) granted to ShaMaran's non-executive directors. DSUs are revalued at each quarter-end, resulting in an increase or decrease 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 June 30		Six months ended June 30	
	2023	**2022**	**2023**	**2022**
Depreciation and amortization expense	59	55	117	109

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

Credit loss provision

USD Thousands	Three months ended June 30 2023	2022	Six months ended June 30 2023	2022
Credit loss provision	11,568	1,897	12,989	2,508

ShaMaran has reassessed the expected credit losses of loans and receivables owed from the KRG at the end of the quarter. The Company remains engaged with the KRG regarding the repayment of these amounts, but timing is uncertain. Therefore, the Company has reassessed the credit loss provision and has compared the carrying value of the relevant trade receivables with the present value of the estimated future cash flows based on reasonable scenarios and has weighted the expected recovery of these outcomes according to the relative probability. A discount rate of 17% was applied for counterparty discounting and credit risk to provide a reasonable approximation of the fair value of these trade receivables at June 30, 2023. The result of the Company's assessment under IFRS 9 is a further $11.6 million adjustment to these trade receivables in the second quarter included in the statement of comprehensive income. The Company expects to recover the full nominal value of such loans and receivables, but a provision remains to reflect credit risk.

Finance income

USD Thousands	Three months ended June 30 2023	2022	Six months ended June 30 2023	2022
Interest on deposits	1,120	302	2,112	318
Interest on Company Bonds	922	90	1,853	176
Total gain and interest income	**2,042**	**392**	**3,965**	**494**
Foreign exchange gain	-	43	-	80
Total finance income	**2,042**	**435**	**3,965**	**574**

The Company has generated significantly higher finance income during Q2 and the first six month of 2023 relative to the same periods in 2022. The variance is explained by the higher amount of ShaMaran bonds owned by the Company, as well as the higher interest rates on cash balances in various bank accounts (including the DSRA).

Finance cost

USD Thousands	Three months ended June 30 2023	Three months ended June 30 2022	Six months ended June 30 2023	Six months ended June 30 2022
Interest /amortization charges on bonds	10,019	8,536	19,742	17,130
Amortization of the related party loan	539	704	1,036	1,378
Re-measurement of contingent consideration	46	-	184	-
Amortization of 2023 bond transaction costs	-	246	-	489
Total borrowing costs	**10,604**	**9,486**	**20,962**	**18,997**
Foreign exchange loss	36	-	36	-
Unwinding discount on decommissioning provision	13	(214)	(90)	(567)
Lease – interest expense	4	4	5	11
Interest expenses	-	(1)	-	35
Total finance costs before borrowing costs capitalized	**10,657**	**9,275**	**20,913**	**18,476**
Borrowing costs capitalized	(909)	(303)	(1,465)	(444)
Total finance cost	**9,748**	**8,972**	**19,448**	**18,032**

Interest and amortization charges during the first half of 2023 include the transaction costs, amortization and interest on the Company's $300 million bond, which has a 4-year tenor due July 2025 and a 12% fixed semi-annual coupon (the "2025 Bond"). The first half 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 June 30 2023	Three months ended June 30 2022	Six months ended June 30 2023	Six months ended June 30 2022
Income tax expense	30	14	50	33

Income tax expense relates to provisions for income taxes on service income generated in Switzerland that 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 below:

	Six months ended June 30, 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	16,339	-	16,339	31,291	67	31,358
Sarsang Acquisition	-	-	-	178,487	-	178,487
Depletion and depreciation expense	(14,672)	(31)	(14,703)	(46,365)	(67)	(46,432)
Net book value	**303,884**	**136**	**304,020**	**302,217**	**167**	**302,384**

During the first six months of 2023, movements in PP&E were comprised of general additions of $16.3 million (2022 full year: $31.4 million general additions plus $178.5 million Sarsang Acquisition), which included capitalized borrowing costs of $1.4 million (2022 full year: $1.5 million), net of depletion and depreciation expense of $14.7 million (2022 full year: $46.4 million) that resulted in a net increase to PP&E assets of $1.6 million.

Financial Position and Liquidity

Loans and receivables

At June 30, 2023, the Company had loans and receivables outstanding as below:

USD Thousands	At June 30, 2023	At December 31, 2022
Accounts receivable on oil sales	96,646	95,481
Credit Loss Provision – transportation costs	(3,695)	(3,695)
Credit Loss Provision	(16,496)	(3,507)
Total loans and receivables	**76,455**	**88,279**

The accounts receivable on oil sales at June 30, 2023, relates to deliveries from October 2022 through March 2023 on the basis of the KBT pricing mechanism. The Company continues to discuss the repayment of these receivables with the KRG, but timing is uncertain. Therefore, the Company has reassessed the credit loss provision and has compared the carrying value of the relevant trade receivables with the present value of the estimated future cash flows based on reasonable scenarios and has weighted the expected recovery of these outcomes according to the relative probability. A relevant discount rate has been applied to reflect counterparty discounting and credit risk to provide a reasonable approximation of the fair value of these trade receivables at June 30, 2023. The result of the Company's assessment under IFRS 9 is a further $11.6 million adjustment to these trade receivables in the second quarter included in the statement of comprehensive income. All receivables are classed as non-current due to uncertainty in timing of payment.

A full provision was made during 2022 to account for a possible increase in transportation and access fees of $3.7 million. According to the KRG, these costs were added as a result of increased pipeline 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 that 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 a 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 June 30, 2023, the Company held $30.7 million of its own 2025 Bond (2022-year end: $30.7 million). These Bonds have not been retired.

At June 30, 2023, $59.22 million of restricted cash is held in a DSRA earning interest. As per the bond terms, this amount represents a full year of interest payments plus amortization instalments relating to the 2025 Bond. The Bondholders approved a waiver in July 2023 that allowed the Company to use the restricted cash in the DSRA account to service the bond amortization and interest due at the end of July 2023.

The movements in borrowings are explained below:

USD Thousands	At June 30, 2023	At December 31, 2022
Opening balance	**269,145**	**296,839**
Interest/amortization charges	19,742	35,544
2025 Bond issued	-	188,528
Amortization of 2023 Bond transaction costs	-	2,486
2025 Bond discount	-	(4,092)
2025 Bond transaction costs	-	(6,261)
Bond purchases	-	(27,717)
2023 Bond amount retired	-	(175,000)
Payments to bondholders – interest	(12,400)	(41,182)
Ending balance	**276,487**	**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	17,544	10,202

Loan from related party

In July 2020, the Company announced a full drawdown of Nemesia's liquidity guarantee for $22.8 million followed by the full and final discharge of this 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 claim for repayment is subordinated to all obligations under the Company's 2025 Bond Terms.

After closing 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 below:

USD Thousands	At June 30, 2023	At December 31, 2022
Opening balance	**16,175**	**21,748**
Amortisation	1,036	2,662
Recognize Nemesia loan on new terms	-	15,600
Derecognize Nemesia loan on old terms	-	(23,835)
Payment to Nemesia – Interest	(645)	-
Ending balance	**16,566**	**16,175**

Liquidity and Capital Resources

USD Thousands	For the six months ended June 30 2023	2022
Selected liquidity indicators		
Cash flow from operations	17,532	64,482
Positive/(negative) working capital	24,915	(6,803)
Cash in bank	92,549	250,129

Cash flow from operations of $17.5 million for the six months of 2023 is down by $46.9 million from $64.5 million reported in the same period of 2022 principally due to the delay in oil sales payments for the period October 2022 to March 2023.

Working capital at June 30, 2023, was positive $24.9 million compared to negative $6.8 million at June 30, 2022. The increase in working capital since June 30, 2022, is principally due to the Company's bonds now being classified as a non-current liability after closing the Sarsang Acquisition.

Cash in bank decreased by $13.2 million in the first six months of 2023, as compared to an increase of $78.5 million during the same period of 2022. The main components of the movement in funds were as follows:

- The operating activities of the Company during the first six months of 2023 resulted in an increase of $17.5 million in the cash position (2022: increase of $64.5 million), as explained above.
- Net cash out to investing activities in the first six months of 2023 was $17.5 million (2022: cash inflows of $3.6 million). Cash out to investing activities was comprised of $21.5 million for investments in the Atrush and Sarsang Blocks' development work programs net of cash inflows of $4 million for interest received.
- Net cash outflows to financing activities in the first six months of 2023 were $13.1 million (2022: cash outflows from $10.4 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 for periods ended June 30,				Amounts owing	
	three months		six months		at the balance sheet dates	
USD Thousands	2023	2022	2023	2022	June 30, 2023	December 31, 2022
Nemesia	564	677	1,023	1,355	1,019	568
Namdo Management Services Ltd	8	8	16	16	-	-
Total	**572**	**685**	**1,039**	**1,371**	**1,019**	**568**

Nemesia is a company controlled by a trust settled by the estate of the late Adolf H. Lundin and is a shareholder and bondholder of the Company. The Company has a loan from Nemesia and the obligation to accrue 12% interest (which will be payable in cash semi-annually) plus 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 2,824,362,157 outstanding shares at June 30, 2023 (2,994,303,211 shares fully diluted) and 2,824,362,157 outstanding shares at the date of this MD&A.

Details of share issuance in the first six months of 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.
- 3,074,251 RSUs vested in May 2023 in accordance with the Company's Share Unit Plan for employees' end of service and were issued to the 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

ShaMaran has established a share unit plan and a stock option plan whereby the Company may, from time to time, grant up to a total of 10% of the issued share capital to directors, officers, employees or consultants. At June 30, 2023, a total of 169,941,054 shares, 6% of issued share capital, had been granted of the possible 282,436,215 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 June 30, 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 second quarter of 2023, the Company granted:

(i) 19,750,000 RSUs to certain senior officers and other eligible persons of the Company at a grant date share price of CAD 0.063. In the first half of 2023, a total of 14,954,254 RSUs vested, and the same quantity of shares were issued to plan participants, 2,319,084 RSUs were cancelled or expired due to the end of service of plan participants. The Statement of Comprehensive Income includes RSU-related charges of $604 thousand (2022: $637 thousand) for the first six months.

(ii) 4,770,110 of DSUs to non-executive directors at a grant share price of CAD 0.05. The Statement of Comprehensive Income includes DSU-related charges of $(35) thousand for the first six months of 2023 (2022: $335 thousand). The carrying amount of the DSU liability at June 30, 2023, is $751 thousand.

(iii) 49,400,000 stock options to certain senior officers and other eligible persons of the Company at a strike price of CAD 0.063. In the first six months of 2023, a total of 2,826,668 were cancelled due to the end of service of grantees. The Statement of Comprehensive Income includes option-related charges of $804 thousand (2022: $605 thousand) for the first six months.

At June 30, 2023, there were 128,756,332 stock options outstanding under the Company's employee incentive stock option plan, which represents 4.5% of the total shares outstanding at June 30, 2023. In the first six months of 2023, 557,000 stock options were exercised (year 2022: nil).

The Company has no warrants outstanding.

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

	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**
Granted in the period	49,400,000	19,750,000	4,770,110
Expired/cancelled in the period	(2,826,668)	(2,319,084)	
Option shares exercised	(557,000)	-	-
RSU shares vested and issued	-	(14,954,254)	-
At June 30, 2023	**128,756,332**	**24,600,001**	**16,584,721**
Quantities vested and unexercised:			
At December 31, 2022	63,939,995	-	11,814,611
At June 30, 2023	90,121,336	-	16,584,721

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 on the Sarsang Block, but it also carries its pro rata share of the KRG's petroleum costs in Sarsang Block.

As at June 30, 2023, the outstanding commitments of the Company were as follows:

	For the year ended June 30,				
USD Thousands	2024	2025	2026	Thereafter	**Total**
Atrush and Sarsang Block development and PSC	15,200	166	166	662	**16,194**
Sarsang contingent consideration	-	-	-	15,000	**15,000**
Corporate office and other	132	-	-	-	**132**
Total commitments	**15,332**	**166**	**166**	**15,662**	**31,326**

Amounts relating to Atrush and Sarsang Block developments represent the Company's unfunded paying interest share of the revised 2023 work program and other obligations under the PSC's. Spending has been revised down by the operators of both Blocks due 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 that include but are not limited to those listed below. Additional risks and uncertainties not presently known to the management of the Company or that management of the Company presently deem to be immaterial may also impair the business and operations of the Company and cause the price of the shares in the Company to decline. If any of the risks described below materialize the effect on the Company's business, financial condition or operating results could be materially adverse.

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

On June 21, 2023, the President of Iraq signed the Federal Budget Law giving it legal effect and for the first time covering not just 2023 but a three year period (2023-2025). Subsequent to the enactment of the Federal Budget Law, numerous cases have been brought before the Federal Supreme Court covering various issues. The KRG Prime Minister has argued that certain provisions of the Federal Budget regarding the KRI deprive the region of its express rights granted under the Iraq Constitution of 2005 and that such provisions should be declared unconstitutional. As at the date of this MD&A, (i) the outcome of these cases at the FSC are uncertain as to any possible impact on the Federal Budget, the KRG or on oil producers in the KRI (including the Company) and (ii) the Company further notes that there have been numerous public reports that discussions to agree on the implementation of the Federal Budget Law are also simultaneous to such court case and are on-going between the KRG and Federal Government. The passage of the Iraq federal budget for 2023-2025, including a production commitment from the KRG, should enable regular monthly budget transfers from Iraq to the KRG, as well as normalization of relations between the region and the Federal Government of Iraq. There is no guarantee however that if these revenues, even if received in full and on time, will be sufficient to cover regular payments per the PSC terms and repayment of outstanding payables to International Oil Companies ("IOC's").

Export pipeline shutdown of March 2023

On March 25, 2023, the ITP was shutdown following the announcement of the ICC arbitration ruling in favor of Iraq against Turkey on the liftings of KRI crude from the port of Ceyhan. Discussions are underway in order to recommence oil exports via the ITP 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 (See "Business Outlook"). 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 Ministry of Oil ("MoO") that the pipeline will restart in the near future, there can be no certainty when exports 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 IOC's 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, it is the Company's understanding that this court's further actions have been frozen, but the Company continues 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 KRI 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.

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. Upon the resumption of KRG purchases of oil production from Atrush and Sarsang Blocks and such oil is sold 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's crude, an impact that may continue in the future so long as KBT pricing is applied. At the date of this MD&A it is yet uncertain when SOMO may take over the sale of KRI oil production delivered at Ceyhan with Kirkuk blend pricing but it is believed that the Russia-Ukraine conflict will continue even then to have an impact.

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.sedarplus.ca 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.sedarplus.ca and on the Company's web-site at www.shamaranpetroleum.com.

ShaMaran plans to publish its financial statements for the nine months ending September 30, 2023, on November 8, 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 equivalent
boepd	Barrels of oil equivalent per day
bopd	Barrels of oil per day
Mbbl	Thousand barrels
MMbbl	Million barrels
Mboe	Thousand barrels of oil equivalent
Mboepd	Thousand barrels of oil equivalent per day
Mbopd	Thousand barrels of oil per day
MMboe	Million barrels of oil equivalent

Condensed Interim Consolidated Statement of Comprehensive Income (unaudited)

For the three and six months ended June 30, 2023

Expressed in thousands of United States dollars	Note	Three months ended June 30, 2023	Three months ended June 30, 2022	Six months ended June 30, 2023	Six months ended June 30, 2022
Revenues	5	**6,542**	**44,844**	**49,922**	**83,680**
Cost of goods sold:					
Lifting costs	6	(7,712)	(4,930)	(17,173)	(10,261)
Other costs of production	6	(69)	(40)	(178)	(80)
Depletion	6	(2,960)	(5,666)	(14,672)	(11,452)
Gross margin on oil sales		**(4,199)**	**34,208**	**17,899**	**61,887**
Depreciation and amortization expense		(59)	(55)	(117)	(109)
Share based payments expense	18	(1,151)	(176)	(1,373)	(1,577)
General and administrative expense	7	(2,486)	(2,359)	(5,847)	(3,952)
Credit loss provision	12	(11,568)	(1,897)	(12,989)	(2,508)
(Loss) / Income from operating activities		**(19,463)**	**29,721**	**(2,427)**	**53,741**
Bargain purchase gain on acquisition adjustment		**-**	**-**	**360**	**-**
Finance income	8	2,042	435	3,965	574
Finance cost	9	(9,748)	(8,972)	(19,448)	(18,032)
Net finance cost		**(7,706)**	**(8,537)**	**(15,483)**	**(17,458)**
(Loss) / Income before income tax expense		**(27,169)**	**21,184**	**(17,550)**	**36,283**
Income tax expense	10	(30)	(14)	(50)	(33)
(Loss) / Income for the period		**(27,199)**	**21,170**	**(17,600)**	**36,250**
Other comprehensive income					
Items that will not be reclassified to profit or loss:					
Re-measurements on defined pension plan		(64)	428	(64)	428
Items that may be reclassified to profit or loss:					
Currency translation differences		36	(46)	36	(65)
Total other comprehensive (income) / loss		**(28)**	**382**	**(28)**	**363**
Total comprehensive (loss) / income for the period		**(27,227)**	**21,552**	**(17,628)**	**36,613**
(Loss) / income in dollars per share:					
Basic		(0.01)	0.01	(0.01)	0.02
Diluted		(0.01)	0.01	(0.01)	0.02

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

Condensed Interim Consolidated Balance Sheet (unaudited)
As at June 30, 2023 and December 31, 2022

Expressed in thousands of United States dollars	Note	June 30, 2023	December 31, 2022
ASSETS			
Non-current assets			
Property, plant and equipment	*11*	304,020	302,384
Loans and receivables	*12*	76,455	-
Right-of-use asset		131	196
Intangible assets		8	15
		380,614	**302,595**
Current assets			
Cash and cash equivalents, restricted	*14*	59,283	36,457
Cash and cash equivalents, unrestricted		33,266	69,273
Other current assets		2,931	2,089
Loans and receivables	*12*	-	88,279
		95,480	**196,098**
TOTAL ASSETS		**476,094**	**498,693**
LIABILITIES			
Non-current liabilities			
Borrowings	*14*	213,943	236,443
Provisions	*16*	26,377	32,926
Loan from related party	*15*	16,566	16,175
Cash-settled deferred share units	*18*	751	785
Pension liability		396	401
Lease liability		-	53
		258,033	**286,783**
Current liabilities			
Borrowings	*14*	45,000	22,500
Accrued interest expense on bonds	*14*	17,544	10,202
Accounts payable and accrued expenses	*13*	7,872	15,286
Lease liability		126	138
Current tax liabilities		23	90
		70,565	**48,216**
EQUITY			
Share capital	*17*	671,136	670,250
Share based payments reserve	*18*	11,165	10,621
Cumulative translation adjustment		57	21
Accumulated deficit		(534,862)	(517,198)
		147,496	**163,694**
TOTAL EQUITY AND LIABILITIES		**476,094**	**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 and six months ended June 30, 2023

Expressed in thousands of United States dollars	Note	Three months ended June 30, 2023	Three months ended June 30, 2022	Six months ended June 30, 2023	Six months ended June 30, 2022
Operating activities					
(Loss) / Income for the period		**(27,199)**	**21,170**	**(17,600)**	**36,250**
Adjustments for non-cash related items:					
Borrowing costs – net of amount capitalized		9,695	9,183	20,142	18,553
Depreciation, depletion and amortization expense		3,019	5,721	14,789	11,561
Share based payment expense		1,150	176	1,335	1,489
Foreign exchange loss / (gain)	*8/9*	36	(43)	36	(80)
Unwinding discount on decommissioning provision		13	(214)	(90)	(567)
Bargain purchase gain adjustment		-	-	(360)	-
Re-measurements on defined pension plan		(64)	428	(64)	428
Interest income	*8*	(2,042)	(392)	(3,965)	(494)
Changes in accounts receivables on oil sales		17,172	4,046	11,824	(969)
Changes in pension liability		(7)	(456)	(8)	(456)
Changes in current tax liabilities		(13)	7	(67)	(8)
Changes in accounts payable and accrued expenses		(779)	(1,421)	(7,598)	(3,553)
Changes in other current assets		(1,715)	2,515	(842)	2,328
Net cash (outflows to) / inflows from operating activities		**(734)**	**40,720**	**17,532**	**64,482**
Investing activities					
Interest received on cash deposits	*8*	2,042	392	3,965	494
Loans – payments received		-	2,041	-	8,813
Purchase of property, plant and equipment		(8,065)	(4,470)	(21,517)	(5,698)
Net cash (outflows to) / inflows from investing activities		**(6,023)**	**(2,037)**	**(17,552)**	**3,609**
Financing activities					
Principal element of lease payments		50	(30)	(72)	(61)
Payments to bondholders and related party – interest	*14,15*	-	-	(13,045)	(17,188)
Shares issued on Rights Offering		-	29,571	-	29,571
Transaction costs		-	(1,936)	-	(1,936)
Net cash outflows to / (inflows from) financing activities		**50**	**27,605**	**(13,117)**	**10,386**
Effect of exchange rate changes on cash and cash equivalents		(33)	(22)	(44)	(14)
Change in cash and cash equivalents		**(6,740)**	**66,266**	**(13,181)**	**78,463**
Cash and cash equivalents, beginning of the year		99,289	183,863	105,730	171,666
Cash and cash equivalents, end of the period*		**92,549**	**250,129**	**92,549**	**250,129**
***Inclusive of restricted cash**	*14*	**59,283**	**129,312**	**59,283**	**129,312**

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 year 2022 and six months ended June 30, 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	-	-	-	-	36,250	36,250
Other comprehensive (loss) / income	-	-	-	(65)	428	363
Transactions with owners in their capacity as owners:						
Share based payments expense	-	579	-	-	-	579
Loan Shares issued	786	-	(786)	-	-	-
Shares issued on Rights Offering	29,571	-	-	-	-	29,571
Transaction costs	(1,936)	-	-	-	-	(1,936)
RSU Shares issued	662	-	-	-	-	662
	29,083	579	(786)	(65)	36,678	65,489
Balance at June 30, 2022	**669,604**	**10,025**	**1,704**	**(85)**	**(597,221)**	**84,027**
Balance at December 31, 2022	**670,250**	**10,621**	**-**	**21**	**(517,198)**	**163,694**
Total comprehensive income for the period:						
Loss for the period	-	-	-	-	(17,600)	(17,600)
Other comprehensive income / (loss)	-	-	-	36	(64)	(28)
Transactions with owners in their capacity as owners:						
Share based payments expense (excluding DSU, Note 18)	-	544	-	-	-	544
Options exercised	38	-	-	-	-	38
RSU Shares issued	848	-	-	-	-	848
	886	544	-	36	(17,664)	(16,198)
Balance at June 30, 2023	**671,136**	**11,165**	-	**57**	**(534,862)**	**147,496**

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:

- 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 ("KRI"). 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 Q3 2017.
- 18% non-operated participating interest (22.5% paying interest) in the Sarsang production sharing contract ("Sarsang PSC") in the KRI. This interest is consolidated in the Company's financial statements from September 14, 2022, when ShaMaran closed the acquisition of TEPKRI Sarsang A/S, a subsidiary of TotalEnergies S.E. (the "Sarsang Acquisition"). 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 as of August 9, 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.

The Company's operations were heavily impacted by the closure of the Iraq-Turkey pipeline ("ITP") on March 25, 2023, a situation that continues as of the date of these financial statements. The Atrush Block has had zero production since early April 2023 when the Block's oil storage reached its capacity. However, as announced by HKN Energy Ltd. ("HKN"), the operator of the Sarsang Block, Sarsang oil production has continued at a reduced production rate, with additional oil storage capacity secured late in April 2023, and sales to local refineries on an ad hoc basis. The Company understands that negotiations continue between officials in Iraq and Turkey about re-opening the ITP. The recent passage of the Iraq federal budget for 2023-2025, including a production commitment from the Kurdistan Regional Government ("KRG"), is intended to enable regular monthly budget transfers from Iraq to the KRG to commence, as well as normalization of relations between the region and the Federal Government of Iraq.

Since the ITP shutdown, the Company and its operating partners have engaged in a number of initiatives aimed at cutting costs (both operating and capital expenditures) for the Company's two assets at the Atrush Block and Sarsang Block. The Company is actively pursuing further cost-reduction initiatives and encouraging our operating partners to pursue additional local sales to improve liquidity. The Company recently successfully engaged with its bondholders to seek additional balance-sheet flexibility given the current pipeline and payment situation, refer to Note 22.

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

Considering the impact of all of the above, the Company expects to have sufficient cash in the next 12 months to fund its costs. However, if the ITP remains closed, local sales do not continue and there is no recovery of the KRG receivables, the Company could require additional liquidity to fund the 2025 Bond obligations due on July 30, 2024. The possibility that the Company's financial resources are insufficient for the next 12 months indicates a material uncertainty that may cast significant doubt over the Company's ability to continue as a going concern. Therefore, the Company might be unable to realize its assets and discharge its liabilities in the normal course of business. These interim consolidated financial statements do not include the adjustments that would result if the Company is unable to continue as a going concern.

c. Significant accounting policies

These unaudited condensed interim consolidated financial statements have been prepared following the same accounting policies and methods of application as those in the Company's audited annual consolidated financial statements for the year ended December 31, 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, the KRI. As a result, in accordance with *IFRS 8: Operating Segments,* the Company has presented its financial information collectively for one operating segment.

5. Revenues

As discussed in Note 2b, the ITP remained closed throughout the second quarter of 2023. Therefore, there are no revenues relating to the Company's entitlement share of oil from the Atrush PSC and Sarsang PSC that would have been sold to the KRG in the quarter. The revenues recorded in the second quarter of 2023 relate entirely to oil sold to local refineries from the Sarsang Block since April 2023. These sales are *ad hoc* and vary in quantity from week to week but are expected to continue on an *ad hoc* basis until the ITP exports resume. Prices for crude oil sales to local refineries are in line with the local market and at a significant discount to international benchmark prices.

In the first six months of 2023, gross exported oil volumes from the Atrush PSC and Sarsang PSC were 5.9MMbbls (2022: 6.9MMbbls), and the Company's entitlement share was approximately 0.7MMbbls (2022: 0.9MMbbls), which was sold with an average netback price of $60.53 per barrel (2022: $91.74). During the first quarter of 2023, the Company used 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.

The comparative revenues in the first half 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.

Refer also to Note 12.

Expressed in thousands of United States dollars

6. Cost of goods sold

Lifting costs are comprised of the Company's share of expenses related to the production of oil from the Atrush and Sarsang Blocks, including operation and maintenance of wells and production facilities, insurance, and the respective operator's related support costs as charged to the Company. The increase in lifting costs during the first half of 2023 over the amount in the first half of 2022 was mainly due to the inclusion of Sarsang lifting costs, partially offset by reduced lifting costs due to the ITP shut down.

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. There has been no depletion for Atrush assets in the second quarter of 2023, due to no production, whereas Sarsang assets have been depleted in line with the production sold in the quarter.

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 half of 2023 compared to the first half of 2022 is mainly due to the inclusion of Sarsang, one-off costs relating to the departure of the former CEO and one-off business development legal and consulting fees. Savings from cost-reduction initiatives have offset the one-off additional costs.

8. Finance income

	Three months ended June 30,		Six months ended June 30,	
	2023	2022	2023	2022
Interest on deposits	1,120	302	2,112	318
Interest on Company Bonds	922	90	1,853	176
Total gain and interest income	**2,042**	**392**	**3,965**	**494**
Foreign exchange gain	-	43	-	80
Total finance income	**2,042**	**435**	**3,965**	**574**

Refer also to Note 14.

Expressed in thousands of United States dollars

9. Finance cost

	Three months ended June 30,		Six months ended June 30,	
	2023	2022	2023	2022
Interest/amortization charges on bonds	10,019	8,536	19,742	17,130
Amortization of the related party loan	539	704	1,036	1,378
Re-measurement of contingent consideration	46	-	184	-
Amortization of 2023 Bond transaction costs	-	246	-	489
Total borrowing costs	**10,604**	**9,486**	**20,962**	**18,997**
Foreign exchange loss	36	-	36	-
Unwinding discount on decommissioning provision	13	(214)	(90)	(567)
Lease – interest expense	4	4	5	11
Interest expenses	-	(1)	-	35
Total finance costs before borrowing costs capitalized	**10,657**	**9,275**	**20,913**	**18,476**
Borrowing costs capitalized	(909)	(303)	(1,465)	(444)
Total finance cost	**9,748**	**8,972**	**19,448**	**18,032**

Interest and amortization charges during the first half of 2023 include the transaction costs, amortization, and interest on the Company's $300 million bond, which has a 4-year tenor due July 2025 and a 12% fixed semi-annual coupon (the "2025 Bond"). The first half 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 also 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.

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 related to the Company's share of the Sarsang PSC since the acquisition.

During the first six months of 2023, movements in PP&E were comprised of general additions of $16.3 million (2022 full year: $31.4 million general additions plus $178.5 million Sarsang Acquisition), which included capitalized borrowing costs of $1.4 million (2022 full year: $1.5 million), net of depletion and depreciation expense of $14.7 million (2022 full year: $46.4 million), that resulted in a net increase to PP&E assets of $1.6 million.

Refer also to Note 6.

Expressed in thousands of United States dollars

12. Loans and receivables

At June 30, 2023, the Company had loans and receivables outstanding as follows:

	At June 30, 2023	At December 31, 2022
Accounts receivable on oil sales	96,646	95,481
Credit Loss Provision – transportation costs	(3,695)	(3,695)
Credit Loss Provision	(16,496)	(3,507)
Total non-current loans and receivables, net of provisions	**76,455**	**88,279**

The accounts receivable on oil sales at June 30, 2023, relates to deliveries from October 2022 through March 2023 on the basis of the KBT pricing mechanism. The Company continues to discuss the repayment of these receivables with the KRG, but timing is uncertain. Therefore, the Company has reassessed the credit loss provision and has compared the carrying value of the relevant trade receivables with the present value of the estimated future cash flows based on reasonable scenarios and has weighted the expected recovery of these outcomes according to the relative probability. A relevant discount rate has been applied to reflect counterparty discounting and credit risk to provide a reasonable approximation of the fair value of these trade receivables at June 30, 2023. The result of the Company's assessment under IFRS 9 is a further $11.6 million adjustment to these trade receivables in the second quarter included in the statement of comprehensive income. All receivables are classed as non-current due to uncertainty in timing of payment.

A full provision was made during 2022 to account for a possible increase in transportation and access fees of $3.7 million. According to the KRG, these costs were added as a result of increased pipeline 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 June 30, 2023	At December 31, 2022
Payables to joint operations partners	6,052	11,049
Trade payables	1,248	904
Accrued expenses	572	3,333
Total accounts payable and accrued expenses	**7,872**	**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 12% Bond maturing in 2025 ("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, that 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 a 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 additional information.

During 2021 and 2022, the Company purchased its own bonds in the market at commercially attractive rates. At June 30, 2023, the Company held $30.7 million of its own 2025 Bond (2022-year end: $30.7 million). These Bonds have not been retired.

At June 30, 2023, $59.2 million of restricted cash is held in a Debt Service Retention Account ("DSRA") earning interest. As per the bond terms, this amount represents a full year of interest payments plus amortization instalments relating to the 2025 Bond. Refer to Note 22 regarding utilization of the DSRA balance for the July 30, 2023, interest and amortization payments.

The movements in borrowings are explained as follows:

	At June 30, 2023	At December 31, 2022
Opening balance:	**269,145**	**296,839**
Interest/amortization charges	19,742	35,544
2025 Bond issued	-	188,528
Amortization of 2023 Bond transaction costs	-	2,486
2025 Bond discount	-	(4,092)
2025 Bond transaction costs	-	(6,261)
Bond purchases	-	(27,717)
2023 Bond amount retired	-	(175,000)
Payments to bondholders – interest	(12,400)	(41,182)
Ending balance	**276,487**	**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	17,544	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 Nemesia's liquidity guarantee for $22.8 million followed by the full and final discharge of this 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 claim for repayment is subordinated to all obligations under the Company's 2025 Bond Terms.

After closing the Sarsang Acquisition and the Bond conversion on September 27, 2022 (refer to 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 June 30, 2023	At December 31, 2022
Opening balance	**16,175**	**21,748**
Amortization	1,036	2,662
Recognize Nemesia loan on new terms	-	15,600
Derecognize Nemesia loan on old terms	-	(23,835)
Payment to Nemesia – Interest	(645)	-
Ending balance	**16,566**	**16,175**

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

16. Provisions

	At June 30, 2023	At December 31, 2022
Opening balance	**22,077**	**18,984**
Changes in estimates and obligations incurred	185	9,779
Unwinding discount on decommissioning provision	(90)	(964)
Changes in discount and inflation rates	(6,829)	(5,722)
Total decommissioning and site restoration provisions	**15,343**	**22,077**
Contingent consideration	11,034	10,849
Total provisions	**26,377**	**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 (22.5% paying interest) in the Sarsang Block. 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	14,954,253	848
Option Shares issued	557,000	38
At June 30, 2023	**2,824,362,157**	**671,136**

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, 14,954,253 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 Deferred Share Units ("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 also 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 June 30, 2023, a total of 169,941,054 shares (6% of issued share capital) had been granted of the possible 282,436,215 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"), RSUs or DSUs.

During the second quarter of 2023, the Company granted 49,400,000 stock options, 19,750,000 RSUs and 4,770,110 DSUs (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 half of 2023 a total of 14,954,254 RSUs vested and 557,000 options were exercised, and the same quantity of shares were issued to plan participants, 2,826,668 options and 2,319,084 RSUs were cancelled due to the end of service of 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 six months of 2023 are charges to the Statement of Comprehensive Income for options of $804 thousand (2022: $605 thousand), for RSUs $604 thousand (2022: $637 thousand) and for DSUs $(35) thousand (2022: $335 thousand). The carrying amount of the DSU liability at June 30, 2023, is $751 thousand (December 31, 2022: $785 thousand).

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

	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**
Granted in the period	49,400,000	19,750,000	4,770,110
Expired/cancelled in the period	(2,826,668)	(2,319,084)	-
Option Shares exercised	(557,000)	-	-
RSU Shares vested and issued	-	(14,954,254)	-
At June 30, 2023	**128,756,332**	**24,600,001**	**16,584,721**
Quantities vested and unexercised:			
At December 31, 2022	63,939,995	-	11,814,611
At June 30, 2023	90,121,336	-	16,584,721
Weighted average remaining contractual life of options:			
At December 31, 2022	2.3 years		
At June 30, 2023	3.2 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 June 30, 2023	At December 31, 2022
Loans and receivables[2] [5]		76,455	88,279
Cash and cash equivalents, restricted [2]		59,283	36,457
Cash and cash equivalents, unrestricted [2]		33,266	69,273
Other receivables [2]		2,556	1,485
Total financial assets		**171,560**	**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 June 30, 2023	At December 31, 2022
Borrowings [3]	Level 2	258,943	258,943
Accrued interest on bonds		17,544	10,202
Related party loan[4]	Level 2	16,566	16,175
Accounts payable and accrued expenses [2]		7,872	15,286
Current tax liabilities		23	90
Total financial liabilities		**300,948**	**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 $255.8 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] Provisions have been made to the loans and receivables, refer to Note 12 for additional information.

[6]*Fair value measurements*

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and establishes a fair value hierarchy of three levels to classify the inputs to valuation techniques used to measure fair value:

- Level 1: fair value measurements are based on unadjusted quoted market prices;
- Level 2: fair value measurements are based on valuation models and techniques where the significant inputs are derived from quoted prices or indices;
- 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 June 30, 2023, the outstanding commitments of the Company were as follows:

	For the year ended June 30,				
	2024	2025	2026	Thereafter	Total
Atrush and Sarsang Block development and PSC	15,200	166	166	662	**16,194**
Sarsang contingent consideration	-	-	-	15,000	**15,000**
Corporate office and other	132	-	-	-	**132**
Total commitments	**15,332**	**166**	**166**	**15,662**	**31,326**

Amounts relating to Atrush and Sarsang Block developments represent the Company's unfunded paying interest share of the revised 2023 work program and other obligations under the PSC's. Spending has been 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 also to Notes 2b and 22.

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

21. Related party transactions

Transactions with corporate entities

	Purchase of services for periods ended June 30, three months		six months		Amounts owing at the balance sheet dates	
	2023	2022	2023	2022	June 30, 2023	December 31, 2022
Nemesia	564	677	1,023	1,355	1,019	568
Namdo Management Services Ltd	8	8	16	16	-	-
Total	**572**	**685**	**1,039**	**1,371**	**1,019**	**568**

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

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

On July 26, 2023, the Company announced that it had requested and received bondholder approval for a waiver to release cash from the 2025 Bond DSRA. The waiver allowed the Company to use restricted cash in the DSRA to pay the bond interest and amortization obligations due on July 30, 2023.

NON-EXECUTIVE DIRECTORS

Chris Bruijnzeels
Director, Chairman

Michael S. Ebsary
Director

Keith C. Hill
Director

William A.W Lundin
Director

Nicholas J. R. Walker
Director

OFFICERS

Garrett Soden
Director, President and CEO

Elvis Pellumbi
Chief Financial Officer

Alex C. Lengyel
Chief Commercial Officer and
Corporate Secretary

INVESTOR RELATIONS

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Computershare Trust Company of Canada
Vancouver, Canada

STOCK EXCHANGE LISTINGS

Toronto: TSX Venture Exchange

Stockholm: NASDAQ First North
Growth Market

Trading Symbol: SNM