SHAMARAN petroleum corp

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Financial Report

For the three months ended March 31, 2022 (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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INTRODUCTION

Management's discussion and analysis ("MD&A") of the financial and operating results of ShaMaran Petroleum Corp. (together with its subsidiaries, "ShaMaran" or the "Company") is prepared with an effective date of May 23, 2022 and is intended to provide an overview of the Company's operations, financial performance and current and future business opportunities. The MD&A should be read in conjunction with the unaudited condensed interim consolidated financial statements for the three months ended March 31, 2022, together with the accompanying notes ("Financial Statements").

Company Overview

ShaMaran is in the business of developing and producing oil and gas. The Company has a 27.6% participating interest in the Atrush Block, Kurdistan Region of Iraq through its wholly owned subsidiary General Exploration Partners, Inc. ("GEP"). On July 12, 2021, the Company announced the acquisition of TEPKRI Sarsang A/S, a wholly owned subsidiary of TotalEnergies S.E. ("TTE"). The Company and TTE are working towards fulfilling the conditions precedent for the completion of the acquisition (including receipt of the relevant regulatory approvals) and assuming a successful closing of the transaction, the Company will also have an 18% participating interest in the Sarsang Block, Kurdistan Region of Iraq through its then wholly-owned subsidiary TEPKRI Sarsang A/S.

The Company's common shares are listed on the TSX Venture Exchange in Canada and the NASDAQ First North Growth Market in Sweden. The Company is incorporated and domiciled in British Columbia, Canada under the Business Corporations Act. The address of its registered and records office is 550 Burrard Street, Suite 2900, Vancouver, BC Canada V6C 0A3 and its business address is 885 West Georgia Street, Suite 2000, Vancouver, BC Canada V6C 3E8.

Basis of Preparation

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

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

FIRST QUARTER 2022 HIGHLIGHTS AND KEY EVENTS

The Company's results continued to improve during the first quarter of 2022. A new record of oil sales revenues was achieved during Q1 2022 with sales of $38.8 million being 88% higher than Q1 2021. The strong sales translated into record cash flows from operations of $23.8 million in Q1 2022, nearly five times that of Q1 2021. ShaMaran's Q1 2022, EBITDAX[1] was more than double that of Q1 2021, continuing to demonstrate the Company's strong profitability in the current oil price environment.

In July 2021 the Company began the implementation of its growth plans by signing an agreement to acquire an affiliate of TTE holding an 18% participating interest in Sarsang block (the "Sarsang Acquisition"). During Q1 2022, the Company made progress toward the closing of this acquisition through engagement with representatives of the Kurdistan Regional Government ("KRG") and TTE and the closing is now expected in Q2 2022. Upon its successful closing, this additional asset will transform the Company's production and reserve profile.

ATRUSH HIGHLIGHTS

Financial:

	Three months ended Mar 31	
USD Thousands	**2022**	**2021**
Revenue	38,836	20,606
Gross margin on oil sales	27,679	10,254
Net result	15,080	2,469
Cash flow from operations	23,762	5,285
EBITDAX	30,471	13,500

- The Company delivered oil sales in Q1 2022 of $38.8 million, the highest ever quarterly oil sales revenue;
- Cash flow from operations for Q1 2022 were a record $23.8 million, nearly five times that of Q1 2021;
- EBITDAX in Q1 2022 was very strong at $30.5 million, more than double the EBITDAX of Q1 2021; and
- The KRG continues to repay the $41.7 million of outstanding receivables for November 2019 to February 2020 ("KRG Receivables"). At the date of this MD&A only $6.99 million of the KRG Receivables remain outstanding.

Operational:

- Atrush Property gross 2P reserves[2] had a 102% reserves replacement ratio during the year, increasing to 110.2 MMbbls as at December 31, 2021 from 109.9 in 2020, with the Company's share of gross 2P reserves increasing from 30.3 MMbbls to 30.4 MMbbls;
- Average production of approximately 38,812 bopd in Q1 2022, similar to Q1 2021 production of 38,212 bopd and within the 2022 guidance;
- Q1 2022 lifting costs per barrel of $5.53 is slightly higher than Q1 2021 lifting costs of $5.12 per barrel. This slight increase is mainly due to higher diesel prices, but within our 2022 guidance which takes into account cost inflation; and
- The CK-16 well was spudded in March 2022. The primary purpose of the CK-16 well is to serve as a water injection well, providing additional capacity and redundancy to CK-9, the first Atrush water injection well. The CK-16 well reached TD ahead of schedule on May 20, 2022, and the well is currently being logged.

[1] Earnings before interest, tax, depreciation, amortisation, and exploration expense.

[2] Reserves estimates, contingent resource estimates and estimates of future net revenue in respect of ShaMaran's oil and gas assets in the Atrush Block are effective as at December 31, 2021, and are included in the report prepared by McDaniel & Associates Consultants Ltd., an independent qualified reserves evaluator, in accordance with National Instrument 51-101 – *Standards of Disclosure for Oil and Gas Activities* (NI 51-101) and the Canadian Oil and Gas Evaluation Handbook (the COGE Handbook) and using McDaniel's January 1, 2022 price forecasts. Certain abbreviations and technical terms used in this MD&A are defined or described under the heading "Other Supplementary Information".

CORPORATE HIGHLIGHTS/SARSANG ACQUISITION

- The Company announced on July 12, 2021 that it signed an agreement with a subsidiary of TTE for the Sarsang Acquisition. The Sarsang Acquisition has an effective date of January 1, 2021. The Company intends to finance the Sarsang Acquisition through the issue of the new debt, a one-month vendor convertible loan and by utilizing the Company's cash balance.
- On July 16, 2021 the Company announced the successful placement of a new $300 million bond, with a 4-year tenor due July 2025 and a 12% fixed semi-annual coupon (the "2025 Bond"). The proceeds from the 2025 Bond issue will be used to refinance the Company's existing outstanding bond (the "2023 Bond"), to refinance $7.2 million of existing subordinated debt, to partly finance the Sarsang Acquisition announced July 12, 2021 and for general corporate purposes.
- On July 27, 2021 the Company announced that the proposals for the conditional refinancing of the 2023 Bond as well as necessary waivers for the issuance of the 2025 Bond and other financial matters relating to the 2023 Bond were approved by the bondholders voting on the proposals.
- On July 30, 2021 the Company announced the issuance and settlement of the initial issue of the 2025 Bond in the amount of $111.5 million. Proceeds from this initial issue will be used to pay a portion of the purchase price of the Sarsang Acquisition and have been placed into escrow subject to release following the satisfaction of conditions precedent to completion of the Sarsang Acquisition.
- Also, on July 30, 2021 the Company entered into an agreement with Nemesia S.à.r.l. ("Nemesia") (a private company ultimately controlled by a trust the settlor of which is the Estate of the late Adolf H. Lundin) to underwrite the $30 million of the $30.5 million rights offering referred to in the Company's news releases of July 12, 2021 and April 5, 2022. The Company has determined that, due to the improvement in its cashflow since the July 2021 announcement, it now intends to use the proceeds raised from the Rights Offering for general corporate and administrative purposes.
- Upon the successful closing of the Sarsang Acquisition, the additional interest in Sarsang block:
  - (i) adds immediate incremental participating interest production of approximately 5,000 bopd of light crude oil (36-39° API);
  - (ii) is expected to double ShaMaran's average net production to approximately 20,000 bopd, following the completion of the processing facility expansion at Swara Tika field by third quarter of 2022;
  - (iii) enhances ShaMaran's oil reserves through the addition of high API and low sulphur oil that achieves a low discount to Brent; and
  - (iv) the combined business is forecasted to result in a 2022 year end unrestricted cash balance between $130 million and $150 million based on Brent oil prices of $90 to $100 per barrel. This cash balance combined with the $36 million held as restricted cash in line with the 2025 Bond agreement will result in leverage of below 1x net debt to EBITDAX at year end 2022.

The Company is currently finalizing completion of the Sarsang Acquisition documentation with the KRG and TTE, where a number of conditions are being satisfied or will be waived prior to closing.

OPERATIONS REVIEW

Business overview

The first quarter of 2022 has seen a continuation of strong market conditions for oil producers. Average Brent oil price invoiced for the first quarter of this year was $101.58/bbl vs. $79.46/bbl average price for the fourth quarter of 2021.

The Russian invasion of Ukraine in late February 2022 and the continued conflict has triggered a severe response from the international community that has further exacerbated the 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 monitoring international sanctions and trade control legislation in order to mitigate any potential impact on the Company's operations. To date, the Russia-Ukraine conflict has had no negative impact on the Company or Atrush operations.

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

ShaMaran continues to remain optimistic about strong oil prices being sustained throughout 2022 despite uncertainties in demand and supply in the global market. However, the Company will continue to maintain its financial discipline while remaining focused on completing the Sarsang Acquisition. We are very well positioned to further grow the Company as new market opportunities present themselves in Kurdistan and elsewhere.

Environmental, social and governance considerations are important to ShaMaran as evidenced by the Company's announcement on April 12, 2022 of its participation as exclusive corporate sponsor of the Hasar Vision 2025 Project which, among other activities, plans to plant over one million oak trees in the vicinity of Erbil, the capital of Kurdistan, aiming to reduce urban pollution. Carbon credits will be sought and will be a first-of-its kind in Kurdistan. These credits will be used by the Company to offset its carbon emissions in Atrush block. Over the next year ShaMaran plans to develop a detailed energy transition strategy to achieve net carbon neutrality. Future potential investment decisions by the Company in its growth plans will be carefully evaluated for alignment with that strategy and its objectives.

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

Together with the risks disclosed in the Company's Annual Information Form dated April 25, 2022, management has not identified other trends or events that are expected to have a material adverse effect on the financial performance of the Company.

For additional background and history on the Company's Atrush ownership, please refer to the Company's Annual Information Form for the year ended December 31, 2021 , which is available for viewing both on the Company's website at www.shamaranpetroleum.com and on SEDAR at www.sedar.com, under the Company's profile.

Operations Overview

COVID-19 Response

Since the implementation of the COVID-19 action plan in February 2020, the operational impacts of the COVID-19 pandemic have been successfully managed to minimize any negative impact on field operations and production outlook. Full vaccination of all Atrush field and office staff has now been achieved and the Atrush field has returned to normal, pre-pandemic, operating levels.

Reserves and Resources

On April 25, 2022, the Company reported estimated reserves and contingent resources for the Atrush field as at December 31, 2021, as reported by the Company's independent reserves and resources evaluator, McDaniel & Associates Consultants Ltd. ("McDaniel").

Total field proven plus probable ("2P") reserves on a Company gross basis for Atrush increased from 30.3 million barrels reported as at December 31, 2020, to 30.4 million barrels as at December 31, 2021, being a 102% reserves replacement of 2021 production.

Total field unrisked best estimate contingent oil resources ("2C")[3] on a Company gross basis for Atrush decreased from the 2020 estimate of 60.6 million barrels to 34.8 million barrels as at December 31, 2021, due to the CK-17 well sidetrack.

Total discovered oil in place in the Atrush block is a low estimate of 1.3 billion barrels, a best estimate of 1.5 billion barrels and a high estimate of 2.0 billion barrels.

For more information on reserves and resources, please reference our Form 51-101 F1 Statement of Reserves Data and Other Oil and Gas Information as at December 31, 2021 and available in the Company's profile on SEDAR at www.sedar.com.

Production

	Three months ended March 31		Three months ended December 31
	2022	2021	2021
Atrush average daily oil production – gross 100% field (Mbopd)	38.8	38.2	35.3
Atrush oil sales – gross 100% field (Mbbl)	3,493	3,439	3,246
ShaMaran's entitlement in Atrush oil sales (Mbbl)	464	457	431

Atrush production for Q1 2022 was up 2% over Q1 2021, and up 10% compared to Q4 2021 due to higher operational efficiencies. ShaMaran's entitlement of oil sales in Q1 2022 was also slightly higher compared to Q1 and Q4 2021, up 2%, and up 8% respectively.

Operational Outlook

With continuing high oil prices in 2022 the Company anticipates a continuation of strong operating cash flow, supporting prudent capital deployment in the year. The Company reiterates the guidance for 2022 provided in its news release of April 25, 2022, as follows:

- 2022 average production guidance of 36,000 to 41,000 bopd;
- Resumption of suspended 2020 capital program with Atrush capital expenditures for 2022 planned at $116 million ($32 million net to ShaMaran). This capital program includes:
  - The drilling and completion of three development wells.
  - Initiation of the gas solution project which will significantly reduce emissions by using existing infrastructure to generate electrical power from produced gas. As the Atrush field is currently dependent on diesel-fueled generators for all electrical power, this project will also therefore greatly reduce future operating costs.
- Atrush operating expenditure is forecast to be $76 million ($21 million net to ShaMaran) for 2022; and
- Atrush average lifting costs per barrel are estimated to range from $4.80 to $5.80. Atrush lifting costs are mainly fixed costs and dollar-per-barrel estimates should decrease with increasing levels of production and operational efficiencies; however rising oil prices do have a negative impact on lifting costs as diesel is an important element of operating costs.

[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.

FINANCIAL REVIEW

Financial Results

Selected Quarterly Financial Information

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

USD Thousands (except per share data)	Q1 2022	Q4 2021	Q3 2021	Q2 2021	Q1 2021	Q4 2020	Q3 2020	Q2 2020
Continuing operations:								
Revenue	**38,836**	27,439	29,070	25,208	20,606	14,081	15,358	7,393
Cost of goods sold	**(11,157)**	(14,777)	(17,050)	(10,255)	(10,352)	(3,828)[4]	(11,406)	(13,562)
General and admin expense	**(1,593)**	(2,645)	(1,844)	(1,804)	(1,543)	(2,115)	(1,678)	(2,512)
Share based payments	**(1,401)**	(295)	(198)	(469)	(665)	(258)	(283)	(406)
Depreciation and amortization	**(54)**	(51)	(56)	(55)	(57)	(54)	(52)	(50)
Credit loss provision	**(611)**	2,038	-	-	-	(3,201)	-	-
Finance cost	**(9,060)**	(7,638)	(9,904)	(6,054)	(6,167)	(6,441)	(4,654)	(5,469)
Finance income	**139**	26	9	276	669	2	-	1
Income tax expense	**(19)**	(36)	(8)	(13)	(22)	29	(18)	(26)
Net income / (loss)	**15,080**	**4,061**	**19**	**6,834**	**2,469**	**(1,785)**	**(2,733)**	**(14,631)**
EBITDAX	**30,471**	18,456	16,017	18,402	13,500	6,614	8,707	(1,882)
Basic and diluted net inc / (loss) in $ per share	**0.007**	0.002	-	0.003	0.001	(0.001)	(0.001)	(0.007)

Earnings before interest, tax, depreciation, amortisation, and exploration expense ("EBITDAX")[5] is calculated as the net result before financial items, taxes, depletion of oil and gas properties, impairment costs, depreciation and exploration expenses and adjusted for non-recurring profit/loss on sale of assets and other income. Explanations of the significant variances between periods are provided in the following sections.

Summary of Principal Changes in the First Quarter Financial Information

The $15.1 million net income generated in Q1 2022 was primarily driven by higher revenues being partially offset by the higher finance costs relative to Q4 2021. The quarter also included a provision for possible additional transport and access fees imposed by the KRG and an increase in the credit loss provision, reflecting increased prudence by the Company. The income and expenses in the first quarter are explained in more detail in the following sections.

The Company generated a strong $30.5 million of EBITDAX in Q1 2022, as shown in the following table, continuing to underline the profitability of the Company in the current oil price environment.

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

[5] 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

USD Thousands	Three months ended Mar 31 2022	2021
Revenues	38,836	20,606
Lifting costs	(5,331)	(4,858)
Other costs of production	(40)	(40)
General and administrative expense	(1,593)	(1,543)
Share based payments	(1,401)	(665)
EBITDAX	**30,471**	**13,500**

Gross margin on oil sales

USD Thousands	Three months ended Mar 31 2022	2021
Revenue from Atrush oil sales	38,836	20,606
Lifting costs	(5,331)	(4,858)
Other costs of production	(40)	(40)
Depletion costs	(5,786)	(5,454)
Cost of goods sold	**(11,157)**	**(10,352)**
Gross margin on oil sales	**27,679**	**10,254**

Revenue from Atrush oil sales relates to the Company's entitlement share of oil sales from the Atrush Block. The increase in revenues in Q1 2022 as compared to Q1 2021 was driven by higher average net oil prices and slightly higher average daily production (38.8 Mbopd vs 38.2 Mbopd). Q1 2022 production was sold at an average net oil price of $85.80 per barrel after deducting $15.78 per barrel average discount for oil quality and transportation costs which compares, respectively, to $45.14 and $15.78 for oil sales made in Q1. The higher oil prices resulted in increased revenues of $18.9 million and the higher production resulted in $0.3 million of positive impact on revenues, compared to the same quarter the previous year. Revenue in Q1 2022 included a provision of $949 thousand to account for a possible increase in transportation and access fees imposed by the KRG. According to the KRG these costs were added as a result of increased pipeline costs and higher oil prices.

Lifting costs are comprised of the Company's share of expenses related to the production of oil from the Atrush Block including operation and maintenance of wells and production facilities, insurance and the Operator's related support costs. The average lifting cost per barrel of Atrush oil produced was $5.53 per barrel in Q1 2022 (Q1 2021: $5.12 per barrel). The increase per barrel related mainly to higher diesel prices in the quarter.

Other costs of production include the Company's share of production bonuses and other costs prescribed under the Atrush PSC.

Depletion costs per entitlement barrel in Q1 2022 was $12.48 (Q1 2021: $11.95), the increase is due to the impact of the 2021 year end reserves report; higher inflation rates increasing the abandonment provision and an increase in future development costs of the field.

Gross margin on oil sales was significantly higher in Q1 2022 mainly due to the increased net oil sales as detailed above.

General and administrative expense

USD Thousands	Three months ended Mar 31	
	2022	**2021**
Salaries and benefits	673	794
Management and consulting fees	362	370
Corporate Sponsorship	200	-
General and other office expenses	176	126
Listing costs and investor relations	94	127
Travel expenses	78	5
Legal, accounting and audit fees	10	121
General and administrative expense	**1,593**	**1,543**

The increase in general and other office expenses in the three months of 2022 compared to 2021 is mainly due to the Hasar corporate sponsorship and an increase in director and officer liability insurance costs.

Share based payments expense

USD Thousands	Three months ended Mar 31	
	2022	**2021**
Option expense	441	274
RSU expense	434	100
DSU expense	526	291
Total share-based payments	**1,401**	**665**

The share-based payments expense relates to the vesting of stock options, granted deferred share units ("DSUs") and restricted share units ("RSUs"). At March 31, 2022 there was in total 77,740,000 outstanding stock options (March 31, 2021: 71,463,332), 24,743,339 RSUs (March 31, 2021: 30,636,667) granted to certain senior officers and other eligible persons of the Company and 13,381,443 DSUs (March 31, 2021: 12,406,477) granted to ShaMaran's non-executive directors. Also refer to the discussion under the "Outstanding share data, share units and stock options" section below.

Depreciation and amortization expense

USD Thousands	Three months ended Mar 31	
	2022	**2021**
Depreciation and amortization expense	54	57

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

Impairment loss on trade receivables

USD Thousands	Three months ended Mar 31	
	2022	**2021**
Impairment loss on trade receivables	611	-

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

Finance income

USD Thousands	Three months ended Mar 31 2022	2021
Net gain from settlement of debt	-	522
Interest on deposits	102	4
Total interest income	**102**	**526**
Foreign exchange gain	37	143
Total finance income	**139**	**669**

The net gain on settlement of debt in Q1 2021 is due to the Company purchasing its 2023 Bonds in the market at commercially attractive rates, as permitted by the January 2021 amendment to the 2023 Bond terms. Interest on deposits in Q1 2022 includes $86 thousand of interest from the $2.988 million of the Company 2023 Bonds that were purchased, but not retired, at the end of the 2021 financial year.

Finance cost

USD Thousands	Three months ended Mar 31 2022	2021
Interest charges on bonds at coupon rate	8,594	5,529
Amortization of the related party loan	674	596
Amortization of bond transaction costs	243	156
Total borrowing costs	**9,511**	**6,281**
Lease – interest expense	7	4
Interest expenses	36	-
Unwinding discount on decommissioning provision	(353)	(29)
Total finance costs before borrowing costs capitalized	**9,201**	**6,256**
Borrowing costs capitalized	(141)	(89)
Finance cost	**9,060**	**6,167**

Interest charges in 2022 include interest on the initial issue amount of $111.5 million of the 2025 Bond issued on July 30, 2021.

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

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

Income tax expense

USD Thousands	Three months ended Mar 31 2022	2021
Income tax expense	19	22

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

Capital Expenditure

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

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

	Three months ended March 31, 2022			Year ended December 31, 2021		
USD Thousands	Oil and gas assets	Office equipment	Total	Oil and gas assets	Office equipment	Total
Opening net book value	**138,804**	**167**	**138,971**	**145,875**	**171**	**146,046**
Additions	2,994	-	2,994	18,878	59	18,937
Depletion and depreciation expense	(5,786)	(17)	(5,803)	(25,949)	(63)	(26,012)
Net book value	**136,012**	**150**	**136,162**	**138,804**	**167**	**138,971**

The net book value of property, plant and equipment ("PP&E") is principally comprised of development costs related to the Company's share of Atrush PSC proved and probable reserves as estimated by the Company's independent qualified reserves evaluator, McDaniel. During the first three months of 2022, movements in PP&E were comprised of additions of $3 million (2021 full year: $18.9 million), which included capitalized borrowing costs of $141 thousand (2021 full year: $523 thousand), net of depletion of $5.8 million (2021 full year: $26 million) which resulted in a net decrease to PP&E assets of $2.8 million

Capital Expenditures on Intangible Assets

The net book value of intangible assets at March 31, 2022 relates to computer software. The movements in Intangible assets are explained as follows:

	Three months ended March 31, 2022	Year ended December 31, 2021
USD Thousands	Software & Licences	Software & Licences
Opening net book value	**37**	**70**
Addition / (reversal)	-	(5)
Amortization expense	(7)	(28)
Net book value	**30**	**37**

Financial Position and Liquidity

Loans and receivables

At March 31, 2022, the Company had loans and receivables outstanding as follows:

USD Thousands	At March 31, 2022	At December 31, 2021
Accounts receivable on Atrush oil sales	47,174	40,599
Atrush Exploration Costs receivable	2,041	8,813
Transportation Cost Provision	(949)	-
Credit Loss Provision	(1,774)	(1,163)
Total loans and receivables	**46,492**	**48,249**

Loans and receivables at March 31, 2022, includes $8.2 million relating to Atrush oil sales from November 2019 to February 2020 and an additional $2 million of Atrush Exploration Costs receivable relating to the same period (at December 31, 2021, the equivalent amounts were $14 million and $3.3 million). These outstanding receivables are expected to be paid by the end of the second quarter of 2022.

The remaining $39 million of accounts receivable on Atrush oil sales at March 31, 2022, relates to sales from January 2022 through to March 2022 (the remaining $32 million balance at December 2021 related to oil sales from October 2021 to December 2021). The increase in accounts receivable is largely driven by an increase in days outstanding for KRG invoices during 2022.

A provision has been made in the first quarter of 2022 against revenues, to account for a possible increase in transportation and access fees. The Company has also provided for a general credit loss provision for all the loans and receivables owed to the Company from the KRG. The Company expects to recover the full nominal value of loans and receivables, however a provision is in place to reflect credit risk, the provision will be reassessed each quarter end.

In the period from the balance sheet date up to the date of this MD&A the Company had received $14.3 million in total payments for receivables balances outstanding at March 31, 2022, comprised of $11.04 million in total payments for its entitlement share of oil sales for the month of January, 2022, and $3.26 million for outstanding receivables (remaining balance of these receivables is now $6.99 million).

Borrowings

The 2023 Bond issued in 2018 carries 12% fixed semi-annual coupon and matures on July 5, 2023. At the date of this MD&A there was $175 million outstanding principal amount of the 2023 Bond. The 2023 Bond will be exchanged for the 2025 Bond immediately following the successful completion of the Sarsang Acquisition. The initial principal amount of $111.5 million of the 2025 Bond was issued on July 30, 2021. In total at March 31, 2021, there are $286.5 million of ShaMaran Bonds outstanding.

In the fourth quarter of 2021 the Company purchased in the market at a commercially attractive rate the principal amount of $2.988 million of its 2023 Bond. At March 31,2022, such repurchased principal amount had not been retired.

The 2020 amendment and restatement of the 2023 Bond Terms included an amendment to provide for a put option in favor of the bondholders to require that the Company purchase the 2023 Bond (at par plus accrued interest and the existing call premium) at any time on ten (10) business days' notice upon the affirmative vote by holders of 50.01% or more of the 2023 Bond. As the put option in the amended 2023 Bond terms is outside of management's control all the borrowings are classified as current at March 31, 2022. Upon successful closing of the Sarsang Acquisition this specified put option will no longer continue to exist following the exchange of the 2023 Bond for the 2025 Bond and this borrowing will no longer be classified as current.

The movements in borrowings are explained as follows:

USD Thousands	At March 31, 2022	At December 31, 2021
Opening balance	**296,839**	**199,561**
Interest charges at coupon rate	8,594	27,419
Amortization of bond transaction costs	243	771
2025 Bond issued	-	111,472
Bond transaction costs	-	(1,672)
2023 Bond purchase	-	(2,988)
2023 Bond amount retired	-	(15,000)
Payments to 2023 Bondholders – interest and call premiums	(17,188)	(22,724)
Ending balance	**288,488**	**296,839**
Current portion: borrowings	281,242	280,999
Current portion: accrued bond interest expense	7,246	15,840

Loan from related party

In July 2020 the Company announced a full drawdown of the $22.8 million liquidity guarantee by Nemesia followed by the full and final discharge of such liquidity guarantee by the Bond Trustee. In exchange for the drawdown of funds the Company has agreed to issue monthly to Nemesia 50,000 shares of ShaMaran for each $500 thousand drawn down and outstanding until such amount is repaid in full together with interest (the "Loan Shares"). At the current $22.8 million drawdown amount the Company is required to issue to Nemesia 2,280,000 ShaMaran shares per month. Upon successful closing of the Sarsang Acquisition the terms of this loan from Nemesia will be amended.

In accordance with *IFRS 9 Financial Instruments* the liquidity guarantee is a compound financial instrument which has two parts: a liability component and an equity component. The fair value of the liability component is presented on the balance sheet as "loan from related party". The fair value of the equity is presented on the balance sheet as "Loan Share reserve". As Nemesia is issued the ShaMaran shares each month the Loan Share reserve value is transferred into share capital on a straight-line basis. During 2022 $393 thousand (2021 $1,573 thousand) has been transferred into share capital.

The 2022 movements in the liquidity guarantee loan balance are explained as follows:

USD Thousands	At March 31, 2022	At December 31, 2021
Opening balance	**21,748**	**19,215**
Amortization of the liability component	675	2,533
Ending balance	**22,423**	**21,748**

Liquidity and Capital Resources

	Three months ended March 31	
USD Thousands	**2022**	**2021**
Selected liquidity indicators		
Cash flow from operations	23,762	5,285
Cash in bank	183,863	18,154
Negative working capital	(56,981)	(107,453)

Cash flow from operations of $23.8 million for Q1 2022 is up by $18.5 million from $5.3 million reported in the same period of 2021 principally due higher oil sales in the quarter.

Working capital at March 31, 2022, was negative $57 million compared to negative $107.5 million at March 31, 2021. The decrease in negative working capital since March 31, 2021 is principally due to the increased cash position and a reduction of the overdue KRG receivables, partially offset by an increase in regular KRG receivables (see "Loans and receivables"). Working capital remains negative as the Company's bonds are classed as a current liability until closure of the Sarsang Acquisition.

The overall cash position of the Company increased by $12.2 million during the first three months of 2022, as compared to the decrease of $10.3 million during the same period of 2021. The main components of the movement in funds were as follows:

- The operating activities of the Company in Q1 2022 resulted in an increase of $23.8 million in the cash position (2021: increase of $5.3 million). The change in cash from operations is explained by the net income of $15 million plus $8.8 million of net positive cash adjustments from working capital items.
- Net cash in from investing activities in Q1 2022 were $5.6 million (2021: inflows from $0.5 million). Cash in from investing activities were comprised of $1.2 million out for the investments in the Atrush Block development work program net of cash inflows of $6.8 million in payments by the KRG of Atrush loans and receivables.
- Net cash outflows from financing activities in Q1 2022 were $17.2 million (2021: cash outflows of 16.0 million) and comprised of $17.2 million semi-annual interest payments to ShaMaran bondholders in January 2022.

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

Off Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Transactions with Related Parties

	Purchase of services three months ended March 31,		Amounts owing at the balance sheet dates	
	2022	2021	March 31, 2022	December 31, 2021
Nemesia	675	674	2,108	1,830
Namdo Management Services Ltd	8	8	-	-
Total	**683**	**682**	**2,108**	**1,830**

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

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

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

Outstanding Share Data, Share Units and Stock options

Common shares

The Company had 2,230,689,658 outstanding shares at March 31, 2022, 2,348,834,436 outstanding shares after dilution and 2,235,249,658 outstanding shares at the date of this MD&A.

Details of share issuance in Q1 2022 are as follows:

- 6,840,000 common shares were issued to Nemesia, and a further 4,560,000 up to the date of this MD&A, in accordance with the loan repayment terms between the Company and Nemesia. The carrying value of the shares has been determined based on the total loan share reserve value and is amortized over the three-year life of the loan. See "Transactions with Related Parties".
- 8,499,995 Restricted Share Units ("RSUs") vested in accordance with the Company's Share Unit Plan and were issued to grantees. The carrying value of the RSU Shares has been determined based on the Company's average closing share price over the 5-day period prior to the vesting date.

Share units and Stock options

The Company has established share unit plan and a stock option plan whereby a committee of the Company's Board may, from time to time, grant up to a total of 10% of the issued share capital to directors, officers, employees or consultants. At March 31, 2022, a total of 115,864,782 shares, 5% of issued share capital, had been granted of the possible 223,068,966 shares that could be granted under the plans. Under the share unit plan the Company may grant performance share units ("PSU"), and restricted share units ("RSU"). As at March 31, 2022 and the date of this MD&A there are no PSUs outstanding. A deferred share unit ("DSU") plan exists for non-executive directors of the Company.

On March 24, 2022, the Company granted

(i) 10,890,000 RSUs to certain senior officers and other eligible persons of the Company at a grant date share price of CAD 0.10. In 2022 a total of 8,249,995 RSUs vested, and the same quantity of shares were issued to plan participants. The Statement of Comprehensive Income includes RSU related charges of $434 thousand (2021: $100 thousand) for the first three months of 2022.

(ii) 2,287,620 DSUs to non-executive directors have been granted and 1,312,654 have been exercised. The Statement of Comprehensive Income includes DSU related charges of $526 thousand for the Q1 2022 (2021: $291 thousand). The carrying amount of the DSU liability at March 31, 2022 is $1,072 thousand.

(iii) 15,750,000 stock options to certain senior officers and other eligible persons of the Company at a strike price of CAD 0.10. The Statement of Comprehensive Income includes option related charges of $441 thousand (2021: $274 thousand) for the quarter.

At March 31, 2022 there were 77,740,000 stock options outstanding under the Company's employee incentive stock option plan, which represents 3.5% of the total shares outstanding at March 30,2022. No stock options were exercised in 2022 (year 2021: nil).

The Company has no warrants outstanding.

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

	Number of share options outstanding	Number of RSUs outstanding	Number of DSUs outstanding
At December 31, 2021	**61,990,000**	**22,103,334**	**12,406,477**
Granted in the period	15,750,000	10,890,000	2,287,620
Expired/cancelled in the period	-	-	(1,312,654)
RSU Shares issued in the period	-	(8,249,995)	-
At March 31, 2022	**77,740,000**	**24,743,339**	**13,381,443**
Quantities vested and unexercised:			
At December 31, 2021	43,069,995	-	12,406,477
At March 31, 2022	62,169,994	-	13,381,443

Contractual Obligations and Commitments

Atrush Block Production Sharing Contract

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

As at March 31, 2022, the outstanding commitments of the Company were as follows:

	For the year ended March 31,				
USD Thousands	2023	2024	2025	Thereafter	**Total**
Atrush Block development	46,259	166	166	1,324	**47,915**
Corporate office and other	140	130	130	21	**421**
Total commitments	**46,399**	**296**	**296**	**1,345**	**48,336**

Amounts relating to Atrush Block development represent the Company's unfunded paying interest share of the approved 2022 work program and other obligations under the Atrush PSC.

Critical Accounting Policies and Estimates

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

Accounting for Oil and Gas Operations

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

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

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

Producing properties and significant unproved properties are assessed annually, or more frequently as economic events dictate, for potential indicators of impairment. Economic events which would indicate impairment include:

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

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

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

In 2022 all the Company's development activities are conducted jointly with others.

Risks in estimating resources

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

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

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

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

The Company does not hedge against commodity price risk.

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

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

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

ShaMaran is leveraged through bond financing at the corporate level. However, the Company is not exposed to interest rate risks associated with its 2023 bonds and 2025 bonds as the interest rate is fixed.

Credit risk is a risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company is primarily exposed to credit risk on its cash and cash equivalents, loans and receivables.

The Company manages credit risk by monitoring counterparty ratings and credit limits and by maintaining excess cash and cash equivalents on account in instruments having a minimum credit rating of R-1 (mid) or better (as measured by Dominion Bond Rate Services) or the equivalent thereof according to a recognized bond rating service.

The carrying amounts of the Company's financial assets recorded in the consolidated financial statements represent the Company's maximum exposure to credit risk.

Liquidity risk is a risk that the Company will have difficulties meeting its financial obligations as they become due. In common with many oil and gas companies, the Company raises financing for its development activities in discrete tranches to finance its activities for limited periods. The Company seeks to acquire additional funding as and when required. The Company anticipates making substantial capital expenditures in the future for the development and production of oil and gas reserves and as the Company's project moves further into the development stage, specific financing, including the possibility of additional debt, may be required to enable future development to take place. The financial results of the Company will impact its access to the capital markets necessary to undertake or complete future drilling and development programs. There can be no assurance that debt or equity financing, or future cash generated by operations, would be available or sufficient to meet these requirements or, if debt or equity financing is available, that it will be on terms acceptable to the Company.

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

RISK AND UNCERTAINTIES

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

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 Ministry of Oil of Iraq ("MoO") to take steps to implement the court's decision which could possibly include annulment of the production sharing contracts issued by the KRG. Dialogue between the KRG and the MoO has commenced and is continuing. At the date of this MD&A, the court's ruling has not impacted the Company's operations and the Company is continuing to monitor the situation closely.

Russia-Ukraine conflict

The Russian invasion of Ukraine in late February 2022 and the continued conflict has triggered a severe response from the international community that has further exacerbated the 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.

Impact of COVID-19 and potential variants

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

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

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

ADDITIONAL INFORMATION

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

The Company plans to publish on or about August 9, 2022 its financial statements for the six months ended June 30, 2022.

OTHER SUPPLEMENTARY INFORMATION

Abbreviations

CAD	Canadian dollar
CHF	Swiss Franc
EUR	Euro
USD	US dollar

Oil related terms and measurements

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

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

Expressed in thousands of United States dollars	Note	For the three months ended March 31, 2022	2021
Revenues	6	**38,836**	**20,606**
Cost of goods sold:			
Lifting costs	7	(5,331)	(4,858)
Other costs of production	7	(40)	(40)
Depletion	7	(5,786)	(5,454)
Gross margin on oil sales		**27,679**	**10,254**
Depreciation and amortization expense		(54)	(57)
Credit loss provision	13	(611)	-
Share based payments expense	20	(1,401)	(665)
General and administrative expense	8	(1,593)	(1,543)
Income from operating activities		**24,020**	**7,989**
Finance income	9	139	669
Finance cost	10	(9,060)	(6,167)
Net finance cost		**(8,921)**	**(5,498)**
Income before income tax expense		**15,099**	**2,491**
Income tax expense	11	(19)	(22)
Income for the period		**15,080**	**2,469**
Other comprehensive income			
Items that may be reclassified to profit or loss:			
Currency translation differences		(19)	(97)
Total other comprehensive loss		**(19)**	**(97)**
Total comprehensive income for the period		**15,061**	**2,372**
Income in dollars per share:			
Basic and diluted		0.007	0.001

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

Condensed Interim Consolidated Balance Sheet (unaudited)
As at March 31, 2022 and December 31, 2021

Expressed in thousands of United States dollars	Note	March 31, 2022	December 31, 2021
ASSETS			
Non-current assets			
Property, plant and equipment	*12*	136,162	138,971
Intangible assets		30	37
Right-of-use asset		22	57
		136,214	**139,065**
Current assets			
Cash and cash equivalents, restricted	*5*	118,656	128,077
Cash and cash equivalents, unrestricted		65,207	43,589
Loans and receivables	*13*	46,492	48,249
Other current assets	*14*	9,672	9,485
		240,027	**229,400**
TOTAL ASSETS		**376,241**	**368,465**
LIABILITIES			
Non-current liabilities			
Loan from related party	*17*	22,423	21,748
Provisions	*18*	20,255	18,984
Cash-settled deferred share units	*20*	1,072	635
Pension liability		1,008	1,023
		44,758	**42,390**
Current liabilities			
Borrowings	*16*	281,242	280,999
Accounts payable and accrued expenses	*15*	8,457	10,589
Accrued interest expense on bonds	*16*	7,246	15,840
Current tax liabilities		43	58
Lease liability		20	51
		297,008	**307,537**
EQUITY			
Share capital	*19*	641,576	640,521
Share based payments reserve	*20*	9,660	9,446
Loan Share reserve	*17*	2,097	2,490
Cumulative translation adjustment		(39)	(20)
Accumulated deficit		(618,819)	(633,899)
		34,475	**18,538**
TOTAL EQUITY AND LIABILITIES		**376,241**	**368,465**

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

Signed on behalf of the Board of Directors

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

/s/Chris Bruijnzeels
Chris Bruijnzeels, Director

Condensed Interim Consolidated Statement of Cash Flow (unaudited)

For the three months ended March 31,

Expressed in thousands of United States dollars	Note	For the three months ended March 31, 2022	2021
Operating activities			
Income for the period		**15,080**	**2,469**
Adjustments for non-cash related items:			
Borrowing costs – net of amount capitalized		9,370	6,192
Depreciation, depletion and amortization expense		5,840	5,511
Share based payment expense		1,313	665
Net gain from settlement of debt	*9*	-	(522)
Foreign exchange gain	*9*	(37)	(143)
Interest income	*9*	(102)	(4)
Unwinding discount on decommissioning provision		(353)	(29)
Changes in current tax liabilities		(15)	(6)
Changes in other current assets		(187)	40
Changes in accounts payable and accrued expenses		(2,132)	(634)
Changes in accounts receivables on Atrush oil sales		(5,015)	(8,254)
Net cash inflows from operating activities		**23,762**	**5,285**
Investing activities			
Loans and receivables – payments received	*13*	6,772	2,510
Interest received on cash deposits	*9*	102	4
Purchase of intangible assets		-	(1)
Purchase of property, plant and equipment		(1,228)	(2,072)
Net cash inflows from investing activities		**5,646**	**441**
Financing activities			
Bonds retired	*16*	-	(4,428)
Principal element of lease payments		(31)	(32)
Payments to bondholders – interest	*16*	(17,188)	(11,497)
Net cash outflows to financing activities		**(17,219)**	**(15,957)**
Effect of exchange rate changes on cash and cash equivalents		8	(33)
Change in cash and cash equivalents		**12,197**	**(10,264)**
Cash and cash equivalents, beginning of the year		171,666	28,418
Cash and cash equivalents, end of the period*		**183,863**	**18,154**
***Inclusive of restricted cash**	*5*	**118,656**	**52**

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

Condensed Interim Consolidated Statement of Changes in Equity (unaudited)

For the three months ended March 31,

Expressed in thousands of United States dollars	Share capital	Share based payments reserve	Loan Share reserve	Cumulative translation adjustment	Accumulated deficit	Total
Balance at January 1, 2020	**638,434**	**8,766**	**4,063**	**50**	**(647,646)**	**3,667**
Total comprehensive income / (loss) for the period:						
Income for the period	-	-	-	-	2,469	2,469
Other comprehensive loss	-	-	-	(97)	-	(97)
Transactions with owners in their capacity as owners:						
Share based payments expense	-	92	-	-	-	92
Loan Shares issued	394	-	(394)	-	-	-
RSU Shares issued	282	-	-	-	-	282
	676	92	(394)	(97)	2,469	2,746
Balance at March 31, 2021	**639,110**	**8,858**	**3,669**	**(47)**	**(645,177)**	**6,413**
Balance at December 31, 2021	**640,521**	**9,446**	**2,490**	**(20)**	**(633,899)**	**18,538**
Total comprehensive income / (loss) for the period:						
Income for the period	-	-	-	-	15,080	15,080
Other comprehensive loss	-	-	-	(19)	-	(19)
Transactions with owners in their capacity as owners:						
Share based payments expense (excluding DSU, Note 20)	-	214	-	-	-	214
Loan Shares issued (Note 17)	393	-	(393)	-	-	-
RSU Shares issued	662	-	-	-	-	662
	1,055	214	(393)	(19)	15,080	15,937
Balance at March 31, 2022	**641,576**	**9,660**	**2,097**	**(39)**	**(618,819)**	**34,475**

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 an interest in the Atrush Block production sharing contract ("Atrush PSC") related to a petroleum property located in the Kurdistan Region of Iraq ("Kurdistan"). The Atrush Block is currently in the eighth year of a twenty-year development period with an automatic right to a five-year extension and the possibility to extend for an additional five years. Oil production on the Atrush Block commenced in July 2017.

On July 12, 2021, the Company announced that it has signed an agreement with a subsidiary of TotalEnergies S.E. to acquire its affiliate (TEPKRI Sarsang A/S) (the "Sarsang Acquisition") holding an 18% non-operated participating interest in the Sarsang Production Sharing Contract in the Kurdistan Region of Iraq. The Sarsang Acquisition is expected to close in the second quarter of 2022. Please refer to Note 5: Sarsang Acquisition for further detail.

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 consolidated financial statements are based on IFRS which were outstanding and effective as of May 23, 2022, the date these interim consolidated financial statements were approved and authorized for issuance by the Company's board of directors ("the Board").

The disclosures provided below are incremental to those included with the Company's annual consolidated financial statements. Certain information and disclosures normally included in the Notes to the annual consolidated financial statements have been condensed or have been disclosed on an annual basis only. Accordingly, these interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2021.

b. Going concern

These condensed interim consolidated financial statements have been prepared on the going concern basis which assumes that the Company will be able to realize its assets and liabilities in the normal course of business as they come due in the foreseeable future.

The Company has forecasted to have sufficient cash in the next 12 months to fund the forecasted Atrush operating and development costs. The Bond Terms were amended during the 2020 financial year to provide for a put option in favour of the bondholders; exercise of this put option would require immediate and significant additional liquidity. The Bond Terms were also amended with a temporary waiver granted with respect to the existing breach of the financial covenant relating to the equity ratio. On July 27, 2021, the bondholders voted to extend this waiver until October 23, 2022. Although there may be the possibility that the Company could be in breach of this covenant at this extended date, management believes there is a low likelihood given the approval stage of the Sarsang Acquisition, the settlement of a new bond on terms that do not contain such an equity ratio requirement (nor the put option), as well as the significant increase in oil prices which may assist the Company in meeting the covenant, even if it was reinstated. Should the Sarsang Acquisition, announced on July 12, 2021, not go ahead then the Company would need to re-assess its ability to comply with this covenant in the future.

Refer to Note 5, 16 and 24 for additional information.

c. Significant accounting policies

These consolidated interim consolidated financial statements have been prepared following the same accounting policies and methods of application as those in the Company's audited annual consolidated financial statements for the year ended December 31, 2021.

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, 2021.

Refer to Note 2b for additional information.

4. Business and geographical segments

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

5. Sarsang Acquisition

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

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

- The initial consideration of $155 million is divided into (i) an upfront cash payment of $135 million payable upon closing and (ii) a deferred consideration of $20 million structured as a vendor finance in the form of a 5.5% convertible promissory note issued to a subsidiary of TotalEnergies with a 1-month maturity from the date of closing.
- A potential additional contingent consideration of $15 million is payable in the future upon (i) cumulative gross production from the Sarsang PSC reaching 130 MMbbls and (ii) subject to Brent crude oil prices averaging at least $60/bbl for the preceding twelve-month period.

The Sarsang Acquisition, once closed, will be financed by the proceeds of the $300 million bond, discussed hereunder, and by utilizing the Company's available cash on hand.

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

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

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

Proceeds from the initial bond issue will be used to pay a portion of the purchase price of the Sarsang Acquisition and have been placed into escrow subject to release following the satisfaction of conditions precedent to completion of the Sarsang Acquisition. These funds totalling $109.8 million, net of $2.1 million of transaction costs, are held within restricted cash at March 31, 2022, along with a further $11 million of restricted cash held in a Debt Service Retention Account ("DSRA") to cover the interest relating to the initial 2025 bond issue and related fees.

In addition, the Company announced on July 30,2021 that it intends to conduct a rights offering process, to raise $30 million for the purposes of part funding the Sarsang Acquisition. Refer to Note 24 for additional information. At the same time the Company announced that it has entered into an agreement with Nemesia to underwrite the rights offering, which means that, in effect, it agrees to acquire shares not subscribed for by others pursuant to subscription rights to be issued in the rights offering.

Refer also to Notes 2b, 16 and 17.

6. Revenues

Revenues relate entirely to the Company's entitlement share of oil from Atrush sold to the KRG during the year to date. The Company holds a 27.6% interest in Atrush. Production from the Atrush field is delivered to the KRG's Feeder Pipeline at the Atrush block boundary for onward export to Ceyhan, Turkey. Gross exported oil volumes from Atrush in the first three months of 2022 were 3.5MMbbls (2021: 3.4MMbbls) and the Company's entitlement share was approximately 0.5MMbbls (2021: 0.5MMbbls) which were sold with an average netback price of $85.80 per barrel (2021: $45.14). Export prices are based on Dated Brent oil price with a discount for estimated oil quality adjustments and all local and international transportation costs. ShaMaran's oil entitlement share is based on export prices and on Atrush PSC terms covering allocation of profit oil, cost oil and capacity building payments owed to the KRG.

A provision has been made in the first quarter of 2022 against revenues of $949 thousand (2021: nil), to account for a possible increase in transportation and access fees that has yet to be approved. According to the KRG these costs were added as a result of increased pipeline costs and higher oil prices.

Refer also to Note 13.

7. Cost of goods sold

Lifting costs are comprised of the Company's share of expenses related to the production of oil from the Atrush Block including operation and maintenance of wells and production facilities, insurance, and the operator's related support costs. The increase the first quarter of 2022 lifting costs over the amount in the first quarter of 2021 was mainly due to increased diesel prices. Other costs of production include the Company's share of production bonuses and its share of other costs prescribed under the Atrush PSC.

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

Refer also to Notes 6 and 12.

8. General and administrative expense

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

Expressed in thousands of United States dollars

9. Finance income

	For the three months ended March 31, 2022	2021
Net gain on settlement of debt	-	522
Interest on deposits	102	4
Total gain and interest income	**102**	**526**
Foreign exchange gain	37	143
Total finance income	**139**	**669**

The net gain on settlement of debt in the first quarter of 2021 is due to the Company purchasing its Bonds in the market at commercially attractive rates, as permitted by the January 2021 amendment to the Bond terms.

Interest on deposits in the first quarter of 2022 includes $86 thousand of interest from the $2.988 million of the Company 2023 Bonds that were purchased, but not retired, at the end of the 2021 financial year.

Refer also to Note 16.

10. Finance cost

	For the three months ended March 31, 2022	2021
Interest charges on bonds at coupon rate	8,594	5,529
Amortization of the related party loan	674	596
Amortization of bond transaction costs	243	156
Total borrowing costs	**9,511**	**6,281**
Interest expenses	36	-
Lease – interest expense	7	4
Unwinding discount on decommissioning provision	(353)	(29)
Total finance costs before borrowing costs capitalized	**9,201**	**6,256**
Borrowing costs capitalized	(141)	(89)
Total finance cost	**9,060**	**6,167**

Interest charges in 2022 include interest on the initial issue amount of $111.5 million of the 2025 Bond issued on July 30, 2021.

Refer to Notes 16 and 17 regarding the bond transaction costs and related party loan.

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

11. Taxation

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

Expressed in thousands of United States dollars

12. Property, plant and equipment

The net book value of property, plant and equipment ("PP&E") is principally comprised of development costs related to the Company's share of Atrush PSC proved and probable reserves as estimated by the Company's independent qualified reserves evaluator, McDaniel & Associates Consultants Ltd. ("McDaniel"). During the first three months of 2022, movements in PP&E were comprised of additions of $3 million (2021 full year: $18.9 million), which included capitalized borrowing costs of $141 thousand (2021 full year: $523 thousand), net of depletion of $5.8 million (2021 full year: $26.0 million) which resulted in a net decrease to PP&E assets of $2.8 million.

Refer also to Note 7.

13. Loans and receivables

At March 31, 2022, the Company had loans and receivables outstanding as follows:

	At March 31, 2022	At December 31, 2021
Accounts receivable on Atrush oil sales	47,174	40,599
Atrush Exploration Costs receivable	2,041	8,813
Transportation Cost Provision	(949)	-
Credit Loss Provision	(1,774)	(1,163)
Total loans and receivables, net of provision	**46,492**	**48,249**
Current portion	46,492	48,249

Loans and receivables at March 31, 2022, includes $8.2 million relating to Atrush oil sales from November 2019 to February 2020 and an additional $2 million of Atrush Exploration Costs receivable relating to the same period (At December 31, 2021, the equivalent amounts were $14 million and $3.3 million). These outstanding receivables are expected to be paid by the end of the second quarter of 2022.

The remaining $39 million of accounts receivable on Atrush oil sales at March 31, 2022, relates to deliveries from January 2022 through to March 2022.

A provision has been made in the first quarter of 2022 against revenues, to account for a possible increase in transportation and access fees. Please refer to Note 6.

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

All the loans and receivables are expected to be recovered within the next 12 months and are therefore all classified as a current loans and receivables at March 31, 2022. At the date these financial statements were approved the Company had received a total of $14.3 million in payments relating to the total loans and receivables balances outstanding at March 31, 2022.

Expressed in thousands of United States dollars

14. Other current assets

	At March 31, 2022	At December 31, 2021
Prepaid expenses	9,422	9,102
Other receivables	250	383
Total other current assets	**9,672**	**9,485**

At March 31, 2022, costs in the amount of $8.89 million (At December 31, 2021, $8.85 million) relating to the refinancing of the Company debt and to the rights offering to shareholders of the Company were recorded as prepaid expenses.

Refer also to Notes 5 and 24.

15. Accounts payable and accrued expenses

	At March 31, 2022	At December 31, 2021
Accrued expenses	5,893	7,150
Payables to joint operations partner	1,800	3,021
Trade payables	764	418
Total accounts payable and accrued expenses	**8,457**	**10,589**

16. Borrowings

The ShaMaran bond issued in 2018 carries a 12% fixed semi-annual coupon and matures on July 5, 2023 (the "2023 Bond"). The Company fulfilled an obligation under the 2023 Bond Terms to make the amortization payment of $15 million by December 2021, this reduced the outstanding principal amount of the 2023 Bond to $175 million. At March 31, 2021, there was $175 million outstanding principal amount of the 2023 Bond and an additional $111.5 million of the 2025 Bond, also at a semi-annual coupon of 12%, relating to the initial issue on July 30, 2021, as described in Note 5.

In the fourth quarter of 2021 the Company purchased in the market at a commercially attractive rate the principal amount of $2.988 million of its 2023 Bond. At March 31, 2022, these Bonds had not been retired.

The 2020 amendment and restatement of the 2023 Bond Terms included an amendment to provide for a put option in favor of the bondholders to require that the Company purchase the 2023 Bond (at par plus accrued interest and the existing call premium) at any time on ten (10) business days' notice, subject to the affirmative vote by holders of 50.01% of the 2023 Bond. As the put option in the amended Bond Terms is outside of management's control, all the borrowings are classified as current at March 31, 2022. Upon successful closing of the Sarsang Acquisition, see Note 5, this specified put option will no longer continue to exist following the exchange of the 2023 Bond for 2025 Bond.

The movements in borrowings are explained as follows:

	At March 31, 2022	At December 31, 2021
Opening balance	**296,839**	**199,561**
Interest charges at coupon rate	8,594	27,419
Amortization of bond transaction costs	243	771
2025 Bond issued	-	111,472
Bond transaction costs	-	(1,672)
2023 Bond purchase	-	(2,988)
2023 Bond amount retired	-	(15,000)
Payments to bondholders – interest and call premiums	(17,188)	(22,724)
Ending balance	**288,488**	**296,839**
Current portion: borrowings	281,242	280,999
Current portion: accrued bond interest expense	7,246	15,840

Refer also to Note 10.

Expressed in thousands of United States dollars

17. Loan from related party

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

In accordance with *IFRS 9 Financial Instruments* the liquidity guarantee is a compound financial instrument which has two parts: a liability component and an equity component. The fair value of the liability component is presented on the balance sheet as "loan from related party". The fair value of the equity is presented on the balance sheet as "Loan Share reserve". As Nemesia are issued the Company shares each month the Loan Share reserve value is transferred into share capital on a straight-line basis. During 2022 $393 thousand (full year 2021: $1,573 thousand) has been transferred into share capital.

The first three months of 2022 movements in the liquidity guarantee loan balance are explained as follows:

	At March 31, 2022	At December 31, 2021
Opening balance	**21,748**	**19,215**
Amortization of the liability component	675	2,533
Ending balance	**22,423**	**21,748**

Upon successful closing of the Sarsang Acquisition, see Notes 5, the terms of this loan from Nemesia will be amended.

Refer also to Notes 10, 19 and 23.

18. Provisions

The provision relates to the Company's share of future decommissioning and site restoration costs in respect of the Company's 27.6% interest in the Atrush Block and assumes these works will commence in the year 2032.

19. 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, 2021	**2,175,868,201**	**638,434**
Loan Shares issued	27,360,000	1,572
RSU Shares issued	12,121,462	515
At December 31, 2021	**2,215,349,663**	**640,521**
Loan Shares issued	6,840,000	393
RSU Shares issued	8,499,995	662
At March 31, 2022	**2,230,689,658**	**641,576**

Refer to Notes 17 and 20.

Expressed in thousands of United States dollars

20. Share based payments expense

The Company has established share unit plans and a share purchase option plan whereby a committee of the Company's Board may, from time to time, grant up to a total of 10% of the issued share capital to directors, officers, employees or consultants. At March 31, 2022, a total of 115,864,782 shares, 5% of issued share capital, had been granted of the possible 223,068,966 shares that could be granted under the plans. The number of shares issuable under these plans at any specific time to any one recipient shall not exceed 5% of the issued and outstanding common shares of the Company. Under the share unit plans the Company may grant performance share units ("PSU"), restricted share units ("RSU") or deferred share units ("DSU").

On March 24, 2022, the Company granted a total of 15,750,000 stock options, 10,890,000 RSUs and 2,287,620 DSUs to certain senior officers and other eligible persons of the Company (2021 full year: a total of 15,590,000 stock options, 8,950,000 RSUs and 5,059,600 DSUs were granted). The options vest over a period of two years and are exercisable over a period of five years at a strike price of CAD 0.10 per share. The RSU grants were based on the grant share price of CAD 0.10, vest over a period of three years and are redeemable in cash or shares of the Company up to five years after the grant date.

In the first quarter of 2022 a total of 8,249,995 RSUs vested and the same quantity of shares were issued to plan participants, and 1,312,654 DSUs were exercised and redeemed in cash. (2021 full year: a total of 12,121,462 RSUs vested, and shares were issued, and 14,210,000 stock options and 3,418,537 RSUs expired or were cancelled).

The result of the movements in the first three months of 2022, are charges to the Statement of Comprehensive Income for options of $441 thousand (2021: $274 thousand), for RSUs $434 thousand (2021: $100 thousand) and for DSUs $526 thousand (2021: $291 thousand). The carrying amount of the DSU liability at March 31, 2022, is $1,072 thousand (December 31, 2021: $492 thousand).

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

	Number of share options outstanding	Number of RSUs outstanding	Number of DSUs outstanding
At December 31, 2021	**61,990,000**	**22,103,334**	**12,406,477**
Granted in the year	15,750,000	10,890,000	2,287,620
DSU Shares exercised	-	-	(1,312,654)
RSU Shares vested and issued	-	(8,249,995)	-
At March 31, 2022	**77,740,000**	**24,743,339**	**13,381,443**
Quantities vested and unexercised:			
At December 31, 2021	43,069,995	-	12,406,477
At March 31, 2022	62,169,994	-	13,381,443
Weighted average remaining contractual life of options:			
At December 31, 2021	2.98 years		
At March 31, 2022	2.30 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

21. Financial instruments

Financial assets

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

	Fair value hierarchy [6]	Carrying and fair values [1] At March 31, 2022	At December 31, 2021
Cash and cash equivalents, restricted [2]		118,656	128,077
Cash and cash equivalents, unrestricted [2]		65,207	43,589
Loans and receivables[2] [5]		46,492	48,249
Other receivables [2]		250	383
Total financial assets		**230,605**	**220,298**

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

Financial liabilities

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

	Fair value hierarchy [6]	Carrying values At March 31, 2022	At December 31, 2021
Borrowings [3] [6]	Level 2	281,242	280,999
Related party loan[4]	Level 2	22,423	21,748
Accounts payable and accrued expenses [2]		8,457	10,589
Accrued interest on bonds		7,246	15,840
Current tax liabilities		43	58
Total financial liabilities		**319,411**	**329,234**

Financial liabilities are initially recognized at the fair value of the amount expected to be paid and are subsequently measured at amortized cost using the effective interest rate method.

[1] The carrying amount of the Company's financial assets approximate their fair values at the balance sheet dates.

[2] No valuation techniques have been applied to establish the fair value of these financial instruments as they are either cash and cash equivalents, correspond to payment terms fixed by contract or, due to the short-term nature, are readily convertible to or settled with cash and cash equivalents.

[3] The Company estimates the fair value of its borrowings at the balance sheet date is $283.5 million (December 31, 2021: $283.5 million) based on recent trades of the Company's bonds.

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

[5] An impairment and provision has been made to the loans and receivables, see Note 13 for details.

[6]*Fair value measurements*

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

- Level 1: fair value measurements are based on unadjusted quoted market prices;
- Level 2: fair value measurements are based on valuation models and techniques where the significant inputs are derived from quoted prices or indices;
- Level 3: fair value measurements are derived from valuation techniques that include inputs that are not based on observable market data.

Expressed in thousands of United States dollars

22. Commitments and contingencies

At March 31, 2022, the outstanding commitments of the Company were as follows:

	For the year ended March 31,				
	2023	2024	2025	Thereafter	Total
Atrush Block development and PSC	46,259	166	166	1,324	**47,915**
Corporate office and other	140	130	130	21	**421**
Total commitments	**46,399**	**296**	**296**	**1,345**	**48,336**

Amounts relating to Atrush Block development represent the Company's unfunded paying interest share of the approved 2022 work program and other obligations under the Atrush PSC.

23. Related party transactions

Transactions with corporate entities

	Purchase of services in the three months ended March 31,		Amounts owing at the balance sheet dates	
	2022	2021	March 31, 2022	December 31, 2021
Nemesia	675	674	2,108	1,830
Namdo Management Services Ltd	8	8	-	-
Total	**683**	**682**	**2,108**	**1,830**

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

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

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

Refer to Notes 10, 17 and 19.

24. Subsequent events

The Company announced on July 30, 2021, that it intends to conduct a rights offering process, to raise $30 million for the purposes of part funding the Sarsang Acquisition. However due to an improvement in the cash generation of the Company since the date of the Sarsang Acquisition announcement the proceeds of the rights offering are now intended to be used for general corporate purposes. On April 5, 2022, the Company announced the launch of the equity rights offering in the amount of approximately $30.5 million to its shareholders, of which $30 million is underwritten by its major shareholder, Nemesia. Following this on April 7, 2022, the Company announced the publication of the Swedish Prospectus in connection with the underwritten rights issue. The Prospectus was approved and registered by the Swedish Financial Supervisory Authority that day. On May 20, 2022, the Company announced the expiry of the rights offering as planned, details of which will follow in due course.

Refer to Notes 2b, 5, 14 and 17.

DIRECTORS

Dr. Adel Chaouch
Director, President and Chief Executive Officer

Chris Bruijnzeels
Director, Chairman

Michael S. Ebsary
Director

Keith C. Hill
Director

William A.W Lundin
Director

OFFICERS

Dr. Adel Chaouch
Director, President and Chief Executive Officer

Alex C. Lengyel
Chief Commercial Officer and Corporate Secretary

Suzanne Ferguson
Assistant Corporate Secretary

CORPORATE DEVELOPMENT

Sophia Shane

INVESTOR RELATIONS

Robert Eriksson

CORPORATE OFFICE

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

OPERATIONS and ADMINISTRATIVE OFFICE

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

REGISTERED and RECORDS OFFICE

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

INDEPENDENT AUDITORS

PricewaterhouseCoopers SA
Geneva, Switzerland

TRANSFER AGENT

Computershare Trust Company of Canada
Vancouver, Canada

STOCK EXCHANGE LISTINGS

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

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