SHAMARAN
petroleum corp

2021

SHAMARAN petroleum corp

Annual Report

For the year ended December 31, 2021

Contents

Management's Discussion and Analysis

For the three months ended and year ended December 31, 2021

INTRODUCTION

Management's discussion and analysis ("MD&A") of the financial and operating results of ShaMaran Petroleum Corp. (together with its subsidiaries, "ShaMaran" or the "Company") is prepared with an effective date of April 25, 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 audited consolidated financial statements for the year ended December 31, 2021, together with the accompanying notes ("Financial Statements").

Company Overview

ShaMaran is in the business of developing and producing oil and gas. The Company has a 27.6% participating interest in the Atrush Block, Kurdistan Region of Iraq through its wholly owned subsidiary General Exploration Partners, Inc. ("GEP"). 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").

Management's Discussion and Analysis
For the three months ended and year ended December 31, 2021

2021 HIGHLIGHTS

2021 has been a transformational year for ShaMaran. The Company generated the highest annual oil sales revenues in its history at $102.3 million. ShaMaran's 2021 EBITAX[1] was more than triple that of 2020 and demonstrates the Company's cash generating ability with cashflow from operations increasing by almost 5 times versus the year before. As at year end 2021 75% of the KRG outstanding receivables have been paid to the Company with payment of the balance expected by the end of Q2 2022. A significant operational milestone was achieved in September 2021 with the announcement of the Atrush 50 MMBbls cumulative oil production. The Atrush 2021 year end reserves report shows a strong 102% reserves replacement. During 2021 the Company began its implementation of growth plans by signing an agreement in July 2021 to acquire an affiliate of TotalEnergies holding an 18% participating interest in Sarsang block (the "Sarsang Acquisition"). Upon its successful closing, this additional asset will transform the Company's production and reserve profile. The acquisition is part funded by the issue of the Company's 2025 Bond in July 2021, currently being held in escrow pending completion of the Sarsang Acquisition later in 2022. Following the closing of the acquisition, the outstanding principal amount of US$175 million of the Company's 2023 Bond will be exchanged into the 2025 Bond to form a single issue.

2021 ATRUSH HIGHLIGHTS

Financial:

	Three months ended Dec 31		Year ended Dec 31	
USD Thousands	**2021**	**2020**	**2021**	**2020**
Revenue	27,439	14,081	102,323	56,673
Gross margin on oil sales	12,662	10,253	49,889	7,106
Net result	4,061	(1,785)	13,383	(144,425)
Cash flow from operations	23,336	5,350	63,903	12,860
EBITDAX	18,456	6,614	66,375	20,052

- The fourth quarter of 2021 saw oil sales generation of $27.4 million and the Company's highest-ever annual oil sales revenues of $102.3 million;
- A very strong EBITDAX of $18.5 million for the fourth quarter of 2021 and $66.4 million for the twelve months of 2021, 3.3 times the EBITDAX result compared to the twelve months of 2020;
- 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 the full amount of the KRG Receivables has been invoiced to the KRG, with $25 million paid and the 2021 production bonus of $6.4 million offset; and
- The Company's final $5 million amortization payment on the 2023 Bond was made in the fourth quarter of 2021, reducing by $15 million the outstanding principal amount of the 2023 Bond by year end. Further to this the Company bought back in the market at commercially attractive rates a further $3 million of its 2023 Bond during 2021. $172 million (net of the $3 million held by the Company in treasury) principal amount of the 2023 Bond and $111.5 million principal amount of the 2025 Bond are outstanding as at the date of this MD&A.

Operational:

- By year end 2021, the Atrush field has produced more than 54 million barrels of oil since first oil commenced in July 2017;
- 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;
- Full year 2021 average production of approximately 38,600 bopd, was very close to the 2021 guidance despite a longer than anticipated routine maintenance shutdown period in September 2021;
- Full year 2021 lifting costs per barrel of $5.12 is within the 2021 guidance and similar to 2020 lifting costs of $5.08 per barrel despite reduced field activity in 2021; and
- Full year 2021 capital expenditure of $52.3 million ($14.2 million net to ShaMaran) in line with guidance of $53.2 million.

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[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".

2021 CORPORATE HIGHLIGHTS/SARSANG ACQUISITION

- The Company announced on July 12, 2021 that it signed an agreement with a subsidiary of TTE for the Sarsang Acqusition. 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 2023 outstanding 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 existing bond (the"2023 Bond") as well as necessary waivers for the issuance of the 2025 Bond and other financial matters relating to the 2023 Bond were approved by the bondholders voting on the proposals.
- On July 30, 2021 the Company announced the issuance and settlement of the initial issue of the 2025 Bond in the amount of $111.5 million. Proceeds from this initial issue will be used to pay a portion of the purchase price of the 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 rights offering referred to in the Company's news release of July 12, 2021. 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; and
  - (iii) enhances ShaMaran's oil reserves through the addition of high API and low sulphur oil that achieves a low discount to Brent.

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

2022 ATRUSH GUIDANCE

- 2022 average production guidance of 36,000 to 41,000 bopd;
- 2022 lifting costs guidance per barrel at $4.80 to $5.80; and
- Full year 2022 Atrush capital expenditure budget of $116.3 million ($32.1 million net to ShaMaran), an increase of 122% compared to 2021 actual capital expenditure. This 2022 capital expenditure includes the drilling and completion of three development wells (including a water injection well).

OPERATIONS REVIEW

Business overview

The fourth quarter of 2021 has seen a continuation of relatively improving market conditions for oil producers. Average Brent oil price invoiced for the fourth quarter of this year was $79.46/bbl vs. $73.46/bbl average price for the third quarter. Crude oil prices have recently seen significant increases due to the war in Ukraine.

Upon the successful closing of the Sarsang Acquisition (now expected in the first half of 2022), ShaMaran will effective as of January 1, 2021 (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) 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 our optimistic view that strong oil prices will be sustained throughout 2022 despite uncertainties in the global market. The Company remains focused on completing the Sarsang Acquisition and will continue to maintain our financial discipline. We are very well positioned to further grow the Company as new market opportunities present themselves in Kurdistan and elsewhere.

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 center of Erbil, the capital of Kurdistan, to reduce urban pollution in that city. Carbon credits will be sought and will be a first of its kind in Kurdistan and will be used by the Company to offset its carbon emissions in Atrush block. Emissions will be a particular focus, recognizing the increasing importance our stakeholders place on understanding and managing climate-related risks. Over the next year ShaMaran plans to develop a detailed energy transition strategy to achieve carbon net neutrality. Any future potential investment decision by the Company in its growth plans will be carefully evaluated for alignment with that strategy and objective.

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. With declining infection rates and continued deployment of vaccination programs in the KRG region, the Atrush field is returning to normal, pre-pandemic, operating levels with resumption of critical capital programs which had been suspended/delayed.

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 Dec 31		Year ended Dec 31	
	2021	2020	**2021**	2020
Atrush average daily oil production – gross 100% field (Mbopd)	35.3	40.8	38.6	45.1
Atrush oil sales – gross 100% field (Mbbl)	3,246	3,752	14,080	16,508
ShaMaran's entitlement in Atrush oil sales (Mbbl)	431	498	1,869	2,158

Atrush production for Q4 2021 was down 13% over Q4 2020, and down 15% year on year, due to the long term effects of the suspension of most of the capital programs in 2020. Due to the resumption of capital programs in 2022, Atrush production has increased by approximately 10% at the date of this MD&A compared to Q4 2021. ShaMaran's entitlement in oil sales in Q4 2021 was down 15% compared to Q3 2021, and down 13% year on year, due to the impacts of decreased capital investment and well interventions, as mentioned above.

Operational Outlook

With continuing significant improvement in oil prices in 2022 the Company anticipates a continuation of strong operating cash flow that will be supported with prudent capital deployment in the year. The Company restates 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, in line with 2021 actual operating costs; 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.

[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)	Q4 2021	Q3 2021	Q2 2021	Q1 2021	Q4 2020	Q3 2020	Q2 2020	Q1 2020
Continuing operations:								
Revenue	**27,439**	29,070	25,208	20,606	14,081	15,358	7,393	19,841
Cost of goods sold	**(14,777)**	(17,050)	(10,255)	(10,352)	(3,828)[4]	(11,406)	(13,562)	(20,771)
General and admin expense	**(2,645)**	(1,844)	(1,804)	(1,543)	(2,115)	(1,678)	(2,512)	(1,876)
Share based payments	**(295)**	(198)	(469)	(665)	(258)	(283)	(406)	(716)
Depreciation and amortization	**(51)**	(56)	(55)	(57)	(54)	(52)	(50)	(49)
Impairment loss	**-**	-	-	-	-	-	-	(116,164)
Credit loss provision	**2,038**	-	-	-	(3,201)	-	-	-
Finance cost	**(7,638)**	(9,904)	(6,054)	(6,167)	(6,441)	(4,654)	(5,469)	(5,479)
Finance income	**26**	9	276	669	2	-	1	34
Income tax expense	**(36)**	(8)	(13)	(22)	29	(18)	(26)	(31)
Net income / (loss)	**4,061**	**19**	**6,834**	**2,469**	**(1,785)**	**(2,733)**	**(14,631)**	**(125,211)**
EBITDAX	**18,456**	16,017	18,402	13,500	6,614	8,707	(1,882)	6,613
Basic and diluted net inc / (loss) in $ per share	**0.002**	-	0.003	0.001	(0.001)	(0.001)	(0.007)	(0.058)

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 Fourth Quarter Financial Information

The $4.1 million net income in Q4 2021 was primarily driven by the high revenues being partially offset by cost of goods sold that include additional depletion charges for the year, due to the end of year reserves report. Also, the quarter included a credit for the partial release of the credit loss provision made at Q4 2020. The income and expenses in the fourth quarter are explained in more detail in the following sections.

The Company generated a strong $18.5 million of EBITDAX in the fourth quarter of 2021, underlining the capacity of the Company to generate positive operational cash.

[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.

Selected Annual Financial Information

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

USD Thousands (except per share data)	For the year ended December 31,		
	2021	2020	2019
Revenues	**102,323**	56,673	70,291
Cost of goods sold	**(52,434)**	(49,567)	(50,259)
General and administrative expense	**(7,836)**	(8,181)	(8,432)
Share based payments expense	**(1,627)**	(1,663)	(944)
Depreciation and amortisation expense	**(219)**	(205)	(103)
Impairment	**-**	(116,164)	-
Credit loss provision	**2,038**	(3,201)	-
Finance income	**844**	5	790
Finance cost	**(29,627)**	(22,076)	(25,389)
Net gain on Atrush acquisition	**-**	-	750
Income tax expense	**(79)**	(46)	(101)
Income/(loss) for the year	**13,383**	**(144,425)**	**(13,397)**
Basic and diluted income/(loss) in $ per share:	**0.01**	(0.07)	(0.01)

Financial position – net book value of principal items	As at December 31,		
	2021	2020	2019
Property plant & equipment	**138,971**	146,046	207,903
Loans and receivables	**48,249**	68,069	77,317
Exploration and evaluation assets	**37**	70	67,649
Cash and other assets	**181,151**	28,989	15,837
Right of use asset	**57**	199	309
Total assets	**368,465**	**243,373**	**369,015**
Borrowings	**(280,999)**	(188,416)	(189,546)
Other liabilities	**(68,928)**	(51,290)	(37,333)
Shareholders' equity	**18,538**	**3,667**	**142,136**
Common shares outstanding (x 1,000)	**2,215,350**	2,173,365	2,160,632

Summary of Principal Changes in Annual Financial Information

The net income in 2021 of $13.4 million is attributable to a number of key drivers. Oil sales at a significantly higher average annual oil price increased the gross margin. The final Atrush production bonus incurred in the year and an adjustment made to the cumulative depletion costs, due to the new reserves report figures, slightly decreased the gross margin. The partial reversal of the 2020 provision made against long-term receivables resulted in additional income. However, finance costs increased in the year, due to the interest on the initial issue of the 2025 Bonds and a full year of amortization of the related party loan. All other costs were similar or even lower than the previous year.

The income and expenses detail and the principal changes in annual financial information are further explained in the sections below.

EBITDAX - Non-IFRS Measures

USD Thousands	Three months ended Dec 31		Year ended Dec 31	
	2021	**2020**	**2021**	**2020**
Revenues	27,439	14,081	102,323	56,673
Lifting costs	(6,025)	(5,279)	(19,893)	(23,154)
Other costs of production	(18)	185	(6,592)	(3,623)
General and administrative expense	(2,645)	(2,115)	(7,836)	(8,181)
Share based payments	(295)	(258)	(1,627)	(1,663)
EBITDAX	**18,456**	**6,614**	**66,375**	**20,052**

Gross margin on oil sales

USD Thousands	Three months ended Dec 31		Year ended Dec 31	
	2021	**2020**	**2021**	**2020**
Revenue from Atrush oil sales	27,439	14,081	102,323	56,673
Lifting costs	(6,025)	(5,279)	(19,893)	(23,154)
Other costs of production	(18)	185	(6,592)	(3,623)
Depletion costs	(8,734)	1,266	(25,949)	(22,790)
Cost of goods sold	**(14,777)**	**(3,828)**	**(52,434)**	**(49,567)**
Gross margin on oil sales	**12,662**	**10,253**	**49,889**	**7,106**

Revenue from Atrush oil sales relates to the Company's entitlement share of oil sales from the Atrush Block. The increase in revenues in 2021 as compared to 2020 were driven by higher average net oil prices, slightly offset by lower average daily production (38.6 Mbopd vs 45.1 Mbopd). 2021 production was sold at an average net oil price of $54.75 per barrel after deducting $15.78 per barrel average discount for oil quality and transportation costs which compares, respectively, to $26.26 and $15.78 for oil sales made in 2020. The higher oil prices resulted in increased revenues of $53.2 million which was partly offset by $7.6 million of negative impact on revenues due to lower production. The significant increase between the Q4 revenues was mainly due to the average net oil price being higher by $35.41 per barrel, resulting in $15.3 million of the increase, slightly offset by $1.9 million due to the lower production (35.3 Mbopd vs 40.8 Mbopd).

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 $5.12 per barrel in 2021 (2020: $5.08 per barrel) only 1% difference between the years. 2021 lifting costs are comfortably within the 2021 guidance of $4.70 to $5.70 per barrel. For Q4 2021 the average lifting cost per barrel of Atrush oil produced was $6.73 per barrel compared to $5.10 per barrel in Q4 2020, the increase is mainly due to a pipeline shutdown in Q4 2021 that increased costs and decreased production in the quarter.

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

Depletion costs per entitlement barrel in 2021 was $13.88 (2020: $10.56), the increase is due to high inflation rates increasing the abandonment provision and an increase in future development costs of the field. The impact of these movements was accounted for in Q4 of 2021 when the 2021 year-end reserves reported was received, hence the significantly higher depletion costs in Q4 2021. In Q4 2020 the credit in depletion costs was 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.

Gross margin on oil sales was significantly higher mainly due to the increased oil prices in 2021 despite lower production, incurring the higher production bonus in 2021 and the increased depletion costs. Quarter on quarter the final gross margin on oil sales is similar, however the increase in revenue in Q4 2021 has been mostly offset by the higher depletion costs due to the reserves adjustment mentioned above.

General and administrative expense

USD Thousands	Three months ended Dec 31 2021	Three months ended Dec 31 2020	Year ended Dec 31 2021	Year ended Dec 31 2020
Salaries and benefits	1,935	1,266	3,896	3,671
Management and consulting fees	247	449	1,292	2,700
General and other office expenses	214	128	675	463
Legal, accounting and audit fees	107	177	1,510	894
Travel expenses	73	6	130	112
Listing costs and investor relations	69	89	333	341
General and administrative expense	**2,645**	**2,115**	**7,836**	**8,181**

The increase in general and other office expenses in the three and twelve months of 2021 compared to 2020 is due to an increase in director and officer liability insurance costs. The overall increased general and administrative expense incurred in Q4 2021 compared to Q4 2020 was principally due to 2021 salaries and benefits. Overall, there is a decrease in general and administrative expense in the year 2021 compared to the year 2020 even though 2021 includes $1.6 million of additional one off project related costs

Share based payments expense

USD Thousands	Three months ended Dec 31 2021	Three months ended Dec 31 2020	Year ended Dec 31 2021	Year ended Dec 31 2020
Option expense	112	199	653	1,269
RSU expense	134	132	541	347
DSU expense / (recovery)	49	(73)	433	47
Total share-based payments	**295**	**258**	**1,627**	**1,663**

The share-based payments expense relates to the vesting of stock options, granted deferred share units ("DSUs") and restricted share units ("RSUs"). At December 31, 2021 there was in total 61,990,000 outstanding stock options (December 31, 2020: 60,610,000), 22,103,334 RSUs (December 31, 2020: 28,693,333) granted to certain senior officers and other eligible persons of the Company and 12,406,477 DSUs (December 31, 2020: 7,346,877) granted to ShaMaran's non-executive directors. Also refer to the discussion under the "Outstanding share data, share units and stock options" section below.

Depreciation and amortization expense

USD Thousands	Three months ended Dec 31 2021	Three months ended Dec 31 2020	Year ended Dec 31 2021	Year ended Dec 31 2020
Depreciation and amortization expense	51	54	219	205

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

Impairment loss

USD Thousands	Three months ended Dec 31 2021	Three months ended Dec 31 2020	Year ended Dec 31 2021	Year ended Dec 31 2020
Impairment loss	-	-	-	116,164

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

Impairment loss on trade receivables

USD Thousands	Three months ended Dec 31		Year ended Dec 31	
	2021	2020	2021	2020
Impairment loss on trade receivables	(2,038)	3,201	(2,038)	3,201

At the end of 2020 a provision of $3.2 million was made against the long-term receivables that represent the $41.7 million owed to the Company by the KRG for $34 million of deliveries from November 2019 to February 2020 and an additional $7.7 million of Atrush Exploration Costs receivable invoiced over the same period. The Company has reassessed the expected credit losses of loans and receivables owed from the KRG and has partially released the previously recognized provision. 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 Dec 31		Year ended Dec 31	
	2021	2020	2021	2020
Net gain from settlement of debt	-	-	792	-
Interest on deposits	26	2	40	5
Total interest income	**26**	**2**	**832**	**5**
Foreign exchange gain	-	-	12	-
Total finance income	**26**	**2**	**844**	**5**

The net gain on settlement of debt is due to the Company purchasing its 2023 Bonds in the market at commercially attractive rates, as permitted by the January 2021 amendment to the 2023 Bond terms, resulting in, as at December 31, 2021, a net gain on settlement of $0.792 million which is included in finance income in the income statement.

Finance cost

USD Thousands	Three months ended Dec 31		Year ended Dec 31	
	2021	2020	2021	2020
Interest charges on bonds at coupon rate	8,635	5,763	27,419	22,800
Amortization of the related party loan	669	590	2,534	1,132
Amortization of bond transaction costs	299	159	771	375
Call premiums	(1,672)	-	-	-
Bond remeasurement	-	-	-	(1,505)
Total borrowing costs	**7,931**	**6,512**	**30,724**	**22,802**
Interest expenses	80	-	80	-
Foreign exchange loss	70	106	-	171
Finance Cost Bond purchase	15	-	15	-
Lease – interest expense	6	4	21	12
Unwinding discount on decommissioning provision	(285)	(4)	(690)	(1)
Total finance costs before borrowing costs capitalized	**7,817**	**6,618**	**30,150**	**22,984**
Borrowing costs capitalized	(179)	(177)	(523)	(908)
Finance cost	**7,638**	**6,441**	**29,627**	**22,076**

Interest charges in the year 2021 include accrued interest on the initial issue amount of $111.5 million of the 2025 Bond issued on July 30, 2021. Amortization of bond transaction costs includes amortization of $140 thousand relating to the call premium of the initial issue of the 2025 Bond. The call premium relates to the difference between the initial issue of $111.5 million principal amount and the gross cash proceeds of $109.8 million, as the 2025 Bond was issued at 98.5% of nominal value. The call premium, previously expensed in Q3 2021, has been capitalized and is being amortized over the term of the 2025 Bond.

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

	Three months ended Dec 31		Year ended Dec 31	
USD Thousands	**2021**	**2020**	**2021**	**2020**
Income tax expense	36	(29)	79	46

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:

	Year ended December 31, 2021			Year ended December 31, 2020		
USD Thousands	Oil and gas assets	Office equipment	Total	Oil and gas assets	Office equipment	Total
Opening net book value	**145,875**	**171**	**146,046**	**207,695**	**208**	**207,903**
Additions	18,878	59	18,937	9,520	2	9,522
Impairment	-	-	-	(48,550)	-	(48,550)
Depletion and depreciation expense	(25,949)	(63)	(26,012)	(22,790)	(39)	(22,829)
Net book value	**138,804**	**167**	**138,971**	**145,875**	**171**	**146,046**

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 year 2021, movements in PP&E were comprised of additions of $18.9 million (2020: $9.5 million), which included capitalized borrowing costs of $523 thousand (2020: $908 thousand), net of depletion of $26.0 million (2020: $22.8 million) and an impairment of $nil (2020: $48.6 million) which resulted in a net decrease to PP&E assets of $7.1 million.

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

Capital Expenditures on Intangible Assets

The net book value of intangible assets at December 31, 2021 relates to computer software. The opening net book value in 2020 was principally comprised of exploration and evaluation ("E&E") assets which represented the Atrush Block exploration and appraisal costs related to the Company's share of Atrush Block contingent resources as estimated by McDaniel. The movements in Intangible assets are explained as follows:

	Year ended December 31, 2021			Year ended December 31, 2020		
USD Thousands	E&E assets	Software & Licences	Total	E&E assets	Software & Licences	Total
Opening net book value	**-**	**70**	**70**	**67,616**	**33**	**67,649**
Addition / (reversal)	-	(5)	(5)	-	51	51
Amortization expense	-	(28)	(28)	-	(14)	(14)
Impairment loss	-	-	-	(67,616)	-	(67,616)
Net book value	**-**	**37**	**37**	**-**	**70**	**70**

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

Financial Position and Liquidity

Loans and receivables

At December 31, 2021, the Company had loans and receivables outstanding as follows:

	For the year ended December 31	
USD Thousands	2021	2020
Accounts receivable on Atrush oil sales	40,599	38,584
Atrush Exploration Costs receivable	8,813	32,686
Credit Loss Provision	(1,163)	(3,201)
Total loans and receivables	**48,249**	**68,069**

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

In December 2020 the KRG proposed a repayment mechanism for the $41.7 million owed to the Company for $34 million of deliveries from November 2019 to February 2020 and an additional $7.7 million of Atrush Exploration Costs receivable invoiced over the same period. This proposal stated that a mechanism will be in place for repayment of amounts owed once the Brent oil price is over $50 per barrel in any month and that various dues owed to the KRG will be offset against the amounts owed from the KRG. At December 31, 2020, the Company assessed the proposal, taking into account counterparty discounting and credit risk, and estimated the future cash flows of the trade receivables. Under IFRS 9 this resulted in a $3.2 million adjustment to these trade receivables included in the statement of comprehensive income for the year ended December 31, 2020. The repayment mechanism began in January 2021, terms were updated by the KRG in March and May, and at December 31, 2021, and at the date of this MD&A the full amount has been invoiced to the KRG, and $25 million has been paid. In addition the Company has offset its $6.4 million production bonus payment for achieving 50 million barrels of cumulative oil production in September 2021 against the outstanding receivables owed to the Company from the KRG.

The Company has reassessed the expected credit losses of loans and receivables owed from the KRG and has partially released the previously recognized provision. The Company expects to recover the full nominal value of loans and receivables, however a provision remains to reflect credit risk.

In the period from the balance sheet date up to the date of this MD&A the Company had received $39.9 million in total payments for receivables balances outstanding at December 31, 2021, comprised of $27.4 million in total payments for its entitlement share of oil sales for the months of October to December 2021, $5.5 million in reimbursements of the Atrush Exploration Costs receivable and $7 million for outstanding receivables.

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 December 31, 2021, there are $286.5 million of ShaMaran Bonds outstanding.

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

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 December 31,2021, 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 December 31, 2021. 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:

	For the year ended December 31	
USD Thousands	2021	2020
Opening balance	**199,561**	**200,693**
2025 Bond issued	111,472	-
Interest charges at coupon rate	27,419	22,800
Amortization of bond transaction costs	771	375
2023 Bond remeasurement	-	(1,505)
Bond transaction costs	(1,672)	-
2023 Bond purchase	(2,988)	-
2023 Bond amount retired	(15,000)	-
Payments to 2023 Bondholders – interest and call premiums	(22,724)	(22,802)
Ending balance	**296,839**	**199,561**
Current portion: borrowings	280,999	188,416
Current portion: accrued bond interest expense	15,840	11,145

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. With such drawdown, $11.4 million of such funds were used to pay in a full and timely manner the 2023 Bond coupon interest payment due in July 2020 and the remaining $11.4 million were held as restricted cash and then used to pay the next coupon interest payment in January 2021. 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 2021 $1,573 thousand (2020 $655 thousand) has been transferred into share capital.

The 2021 movements in the liquidity guarantee loan balance are explained as follows:

	For the year ended December 31	
USD Thousands	2021	2020
Opening balance	**19,215**	**-**
Amortization of the liability component	2,533	1,133
Cash received: full amount of the liquidity guarantee	-	22,800
FV of the equity component	-	(4,718)
Ending balance	**21,748**	**19,215**
Non-current liability: loan from related party	21,748	19,215

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

Liquidity and Capital Resources

	For the year ended December 31	
USD Thousands	2021	2020
Selected liquidity indicators		
Cash flow from operations	63,903	12,860
Cash in bank	171,666	28,418
Negative working capital	(78,137)	(156,162)

Cash flow from operations of $63.9 million for the year ended December 31, 2021 is up by $51 million from $12.9 million reported in the same period of 2020 principally due to $53.2 million from significantly improved oil prices (average netback price per entitlement barrel $54.75 compared to $26.26) which has more than offset the negative $7.6 million impact due to less production in the twelve months (average daily production 38.6 Mbopd compared to 45.1 Mbopd).

Working capital at December 31, 2021 was negative $78.1 million compared to negative $156.1 million at December 31, 2020. The decrease in negative working capital since December 31, 2020 is principally due to the increase in unrestricted cash of $26.6 million, restricted cash of $24 million for the DSRA funding and January 2022 bond interest payment, and the payments for November 2019 through February 2020 oil sales of $30.1 million being classified as current receivables

The overall cash position of the Company increased by $143.2 million in 2021, as compared to the increase of $12.9 million during the same period of 2020. The main components of the movement in funds were as follows:

- The operating activities of the Company in 2021 resulted in an increase of $63.9 million in the cash position (2020: increase of $12.9 million). The change in cash from operations is explained by the net income of $13.4 million plus $50.5 million of net positive cash adjustments from working capital items.
- Net cash in from investing activities in 2021 were $9.7 million (2020: inflows from $0.2 million). Cash in from investing activities were comprised of $14.2 million out for the investments in the Atrush Block development work program net of cash inflows of $23.9 million in payments by the KRG of Atrush loans and receivables.
- Net cash inflows to financing activities in the year were $69.8 million (2020: cash inflows of $0.1 million) and comprised of the net proceeds received from the 2025 Bond $109.8 million (2020: $nil) offset by $22.7 million semi-annual interest payments to ShaMaran bondholders in January and July 2021, $14.3 million for the purchase of 2023 bonds and related interest that were then retired and $3 million for the purchase of 2023 bonds that have not been retired.

The 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 During the year		Amounts owing at the balance sheet dates	
	2021	2020	2021	2020
Nemesia	2,709	1,215	1,830	690
Namdo Management Services Ltd	34	46	-	-
Total	**2,743**	**1,261**	**1,830**	**690**

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

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

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

Outstanding Share Data, Share Units and Stock options

Common shares

The Company had 2,215,349,663 outstanding shares at December 31, 2021, 2,311,849,474 outstanding shares after dilution and 2,232,969,658 outstanding shares at the date of this MD&A.

Details of share issuance in 2021 and since December 31, 2021 are as follows:

- 27,360,000 common shares were issued to Nemesia, and a further 9,120,000 up to the date of this MD&A, in accordance with the loan repayment terms between the Company and Nemesia. The carrying value of the shares has been determined based on the total loan share reserve value and is amortized over the three-year life of the loan. See "loan from related party".
- 12,121,462 Restricted Share Units ("RSUs") vested in accordance with the Company's Share Unit Plan and were issued to grantees, and a further 8,499,995 RSUs up to the date of this MD&A. 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 December 31, 2021, a total of 96,499,811 shares, 4% of issued share capital, had been granted of the possible 221,534,966 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 December 31, 2021 and the date of this MD&A there are no PSUs outstanding. A deferred share unit ("DSU") plan exists for non-executive directors of the Company.

On March 8, 2021, the Company granted

(i) 8,950,000 RSUs to certain senior officers and other eligible persons of the Company at a grant date share price of CAD 0.051. In 2021 a total of 12,121,462 RSUs vested, and the same quantity of shares were issued to plan participants, 3,418,537 RSUs were cancelled or expired due to the end of service of plan participants The Statement of Comprehensive Income includes RSU related charges of $540 thousand (2020: $347 thousand) for the year 2021.

(ii) 5,059,600 of DSUs to non-executive directors at a grant share price of CAD 0.05. The Statement of Comprehensive Income includes DSU related charges of $433 thousand for the year 2021 (2020: $47 thousand). The carrying amount of the DSU liability at December 31, 2021 is $635 thousand.

(iii) 15,590,000 stock options to certain senior officers and other eligible persons of the Company at a strike price of CAD 0.05. In the year 2021 a total of 14,210,000 were cancelled due to the end of service of grantees. The Statement of Comprehensive Income includes option related charges of $654 thousand (2020: $1,269 thousand) in 2021.

At December 31, 2021 there were 61,990,000 stock options outstanding under the Company's employee incentive stock option plan. No stock options were exercised in 2021 (year 2020: nil).

The Company has no warrants outstanding.

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

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

Contractual Obligations and Commitments

Atrush Block Production Sharing Contract

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

As at December 31, 2021, the outstanding commitments of the Company were as follows:

	For the year ended December 31,				
USD Thousands	2022	2023	2024	Thereafter	**Total**
Atrush Block development	52,966	166	166	1,324	**54,622**
Corporate office and other	65	-	-	-	**65**
Total commitments	**53,031**	**166**	**166**	**1,324**	**54,687**

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

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

Critical Accounting Policies and Estimates

The 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.

Significant Accounting Policies

There are no IFRS or interpretations that have been issued effective for financial years beginning on or after January 1, 2021 that would have a material impact on the Company's consolidated financial statements.

New Accounting Standards Issued but not yet applied

There are no new accounting standards which will come into effect for annual periods beginning on or after January 1, 2022, that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

Accounting for Oil and Gas Operations

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

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

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

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

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

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

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

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

RESERVES AND RESOURCE ESTIMATES

The Company engaged McDaniel to evaluate 100% of the Company's reserves and resource data as at December 31, 2021. The conclusions of this evaluation have been presented in a Detailed Property Report which has been prepared in accordance with standards set out in the Canadian National Instrument NI 51-101 and COGEH.

The Company's crude oil reserves as at December 31, 2021 were, based on the Company's working interest of 27.6 % in the Atrush Block, estimated to be as follows:

Company estimated reserves (diluted)
As at December 31, 2021

	Proved Developed	Proved Undeveloped	**Total Proved**	Probable	**Total Proved & Probable**	Possible	**Total Proved, Probable & Possible**
			Light/Medium Oil (Mbbl)[1]				
Gross [2]	9,347	4,758	**14,104**	9,592	**23,696**	10,229	**33,925**
Net [3]	5,189	2,588	**7,777**	3,917	**11,694**	3,845	**15,539**
			Heavy Oil (Mbbl) [1]				
Gross [2]	2,267	882	**3,149**	3,560	**6,709**	3,395	**10,104**
Net [3]	1,259	478	**1,737**	1,574	**3,311**	1,317	**4,628**

Notes:
(1) The Atrush Field contains crude oil of variable density. Fluid type is classified according to COGEH: Light/Medium Oil is based on density less than 920 kg/m3 and Heavy Oil is between 920 and 1000 kg/m3.
(2) Company gross reserves are based on the Company's 27.6 % working interest share of the property gross reserves.
(3) Company net reserves are based on Company share of total Cost and Profit Revenues. Note, as the government pays income taxes on behalf of the Company out of the government's profit oil share, the net reserves were based on the effective pre-tax profit revenues by adjusting for the tax rate.

The Company's crude oil resources as at December 31, 2021, were estimated to be as follows:

Company estimated contingent resources (diluted) [1] [2][4][5]
As at December 31, 2021

	Low Estimate (1C)	Best Estimate (2C)	High Estimate (3C)	Risked Best Estimate
Light/Medium Oil (Mbbl) [3]				
Gross (Development On Hold)	1,289	1,614	1,961	1,130
Gross (Development Not Viable)	0	0	0	0
Heavy Oil (Mbbl) [3]				
Gross (Development On Hold)	3,841	6,359	24,516	4,451
Gross (Development Not Viable)	12,827	26,814	33,546	2,681
Gross Total	16,665	33,173	58,062	8,262

Notes:
(1) Company gross interest resources are based on a 27.6 % working interest share of the property gross resources.
(2) There is no certainty that it will be commercially viable to produce any portion of the contingent resources.
(3) The Atrush Field contains crude oil of variable density. Fluid type is classified according to COGEH: Light/Medium Oil is based on a density less than 920 kg/m3 and Heavy Oil is between 920 and 1000 kg/m3.
(4) The "Risked Best Estimate" " contingent resources account for the chance of development, which is defined as the probability of a project being commercially viable. Quantifying the chance of development requires consideration of both economic contingencies and other contingencies, such as legal, regulatory, market access, political, social license, internal and external approvals and commitment to project finance and development timing. As many of these factors are extremely difficult to quantify, the chance of development is uncertain and must be used with caution. The chance of development was estimated to be 70 % for the Light/Medium and Heavy Crude Oil Development "On Hold" contingent resources and 10% for the Heavy Crude Oil Development "Not-Viable" contingent resources.
(5) The contingent resources are sub-classified as "development unclarified" with an "undetermined" economic status.

The contingent resources represent the likely recoverable volumes associated with further phases of development during Phase 1 ("Development On Hold") which differ from reserves mainly due to the uncertainty over the future development plan.

Prospective resources have not been re-evaluated since December 31, 2013.

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.

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

Impact of COVID-19 and potential variants

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

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

Political and Regional Risks

International operations of oil and gas companies in emerging countries are subject to significant political, social and economic uncertainties which are beyond ShaMaran's control. Uncertainties include, but are not limited to, the risk of war, terrorism, criminal activity, expropriation, nationalization, renegotiation or nullification of existing or future contracts, the imposition of international sanctions, a change in crude oil or natural gas pricing policies, a change in taxation policies, a limitation on the KRG's ability to export oil, and the imposition of currency controls. The materialization of these uncertainties could adversely affect the Company's business including, but not limited to, increased costs associated with planned projects, impairment or termination of future revenue generating activities, impairment of the value of the Company's assets and or its ability to meet its contractual commitments as they become due.

Political uncertainty in Kurdistan and Iraq where ShaMaran's assets and operations are located. While Kurdistan is a federally recognized semi-autonomous political region in Iraq, ShaMaran's business in Kurdistan may be influenced by political developments between Kurdistan and the Iraq Federal Government, as well as political developments of neighbouring states within the MENA region, Turkey, and surrounding areas. Kurdistan and Iraq have a history of political and social instability. As a result, the Company is subject to political, economic and other uncertainties that are not within its control. These uncertainties include, but are not limited to, changes in government policies and legislation, adverse legislation or determinations or rulings by governmental authorities and disputes between the Iraq federal government and Kurdistan.

There is a risk that levels of authority of the KRG, and corresponding systems in place, could be transferred to the Iraq Federal Government. Changes to the incumbent political regime could result in delays in operations and additional costs which could materially adversely impact the operations and future prospects of the Company and could have a material adverse effect on the Company's business and financial condition. Refer also to the discussion in the section below under "Risks associated with petroleum contracts in Kurdistan."

International boundary disputes involving Kurdistan even though it is recognized by the Iraq constitution as a semi-autonomous region, its geographical extent is neither defined in the Iraq constitution nor agreed in practice between the Iraq Federal Government and the KRG. There have been unresolved differences between the KRG and the Iraq Federal Government regarding certain areas which are commonly known as "disputed territories". The Company believes that its current area of operation is not within the "disputed territories".

Industry and Market Risks

Exploration, development and production risks are inherent in ShaMaran's business and also the marketing of oil and natural gas, many of which cannot be overcome even with a combination of experience, knowledge and careful evaluation. The risks and hazards typically associated with oil and gas operations include drilling of unsuccessful wells, fire, explosion, blow-outs, sour gas releases, pipeline ruptures and oil spills, each of which could result in substantial damage to oil and natural gas wells, production facilities, other property or the environment, or in personal injury. The Company is not fully insured against all of these risks, nor are all such risks insurable and, as a result, these risks could still result in adverse effects to the Company's business not fully mitigated by insurance coverage including, but not limited to, increased costs or losses due to events arising from accidents or other unforeseen outcomes including clean-up, repair, containment and or evacuation activities, settlement of claims associated with injury to personnel or property, and or loss of revenue as a result of downtime due to accident.

General market conditions in ShaMaran's business and operations depend upon conditions prevailing in the oil and gas industry including the current and anticipated prices of oil and gas and the global economic activity. A reduction of the oil price, a general economic downturn, or a recession could result in adverse effects to the Company's business including, but not limited to, reduced cash flows associated with the Company's future oil and gas sales. Worldwide crude oil commodity prices are expected to remain volatile in the future due to the COVID-19 pandemic, and more recently the war in Ukraine, and the compounded effects on global supply and demand balances, actions taken by the Organization of the Petroleum Exporting Countries, and ongoing global credit and liquidity concerns. This volatility may affect the Company's ability to obtain additional equity or debt financing on acceptable terms.

Competition in the petroleum industry is intense in all aspects including the acquisition of oil and gas interests, the marketing of oil and natural gas, and acquiring or gaining access to necessary drilling and other equipment and supplies. ShaMaran competes with numerous other companies in the search for and acquisition of such prospects and in attracting skilled personnel. ShaMaran's competitors include oil companies which have greater financial resources, staff and facilities than those of the Company. ShaMaran's ability to increase reserves in the future will depend on its ability to develop its present property and to respond in a cost-effective manner to economic and competitive factors that affect the distribution and marketing of oil and natural gas.

Reliance on key personnel to continue ShaMaran's success depends in large measure on certain key personnel, officers and directors. The loss of the services of such key personnel could negatively affect ShaMaran's ability to deliver projects according to plan and result in increased costs and delays. ShaMaran has not obtained key person insurance in respect of the lives of any key personnel. In addition, competition for qualified personnel in the oil and gas industry is intense and there can be no assurance that ShaMaran will be able to attract and retain the skilled personnel necessary for its business.

Business Risks

Risks associated with petroleum contracts in Kurdistan stem from the Iraq oil ministry's historical disputes over the validity of the KRG's production sharing contracts and, as a result indirectly, the Company's right and title to its oil and gas asset. It is noted that in February 2022 the Federal Supreme Court of Iraq issued a ruling on the constitutionality of the Kurdistan oil and gas sector and further discussion of this matter will be included in the Company's MD&A for Q1 2022.

Government regulations, licenses and permits may affect the Company by changes in taxes, regulations and other laws or policies affecting the oil and gas industry generally as well as changes in taxes, regulations and other laws or policies applicable to oil and gas exploration and development in Kurdistan specifically. The Company's ability to execute its projects may be hindered if it cannot secure the necessary approvals or the discretion is exercised in a manner adverse to the Company. The taxation system applicable to the operating activities of the Company in Kurdistan is pursuant to the Oil and Gas Law governed by general Kurdistan tax law and the terms of its production sharing contracts. However, it is possible that the arrangements under the production sharing contracts may be overridden or negatively affected by the enactment of any future oil and gas or tax law in Iraq or Kurdistan which could result in adverse effects to the Company's business including, but not limited to, increasing the Company's expected future tax obligations associated with its activities in Kurdistan. However, the Company has no reason to believe at this time that the fiscal stability clause set forth in Article 42 of the Atrush PSC would not be honored by the KRG in the future.

Marketing, markets and transportation for the export of oil and gas deliveries from Kurdistan remains subject to uncertainties which could negatively impact on ShaMaran's ability to deliver Atrush oil for export by the KRG and to receive payments from the KRG relating to such deliveries for export. Potential government regulation relating to price, quotas and other aspects of the oil and gas business could result in adverse effects to the Company's business including, but not limited to, impairing the Company's ability to sell Atrush oil and receive full payment for all deliveries of Atrush oil.

Payments to IOCs for oil deliveries to the KRG for export have since Q2 2020 and beyond been consistent. Nevertheless, there remains a risk that the Company may face significant delays in the receipt of cash for its entitlement share of future oil exports.

KRG paying interest in Atrush Block commenced with the exercise by the KRG of its back-in right under the terms of the Atrush PSC. The KRG has, since the commencement of oil production exports from Atrush Block, paid for its share of project development costs in connection with the payment cycle for oil deliveries except for the four-month period of November 2019 to February 2020. While a mechanism exists for the recovery of such unpaid cash calls, and has been fully invoiced in 2021, there is a risk that the Non-Government Contractors in Atrush may again be exposed to funding the KRG 25% share of future Atrush costs.

Default under the Atrush PSC and Atrush JOA if the Company fails to meet its obligations under the Atrush PSC and/or Atrush Block joint operating agreement ("Atrush JOA") which could result in adverse effects to the Company's business including, but not limited to, a loss of the Company's rights and interests in Atrush Block, the termination of future revenue generating activities of the Company and impairment of the Company's ability to meet its contractual commitments as they become due.

Kurdistan's legal system is a less developed legal system than that found in many more established oil producing areas in the world. This could result in risks associated with predicting how existing laws, regulations and contractual obligations will be interpreted, applied or enforced. In addition, it could make it more difficult for the Company to obtain effective legal redress in courts in case of breach of law, regulation or contract and to secure the enforcement of arbitration awards and may give rise to inconsistencies or conflicts among various laws, regulations, decrees or judgments. The Company's recourse may be limited in the event of a breach by a Kurdistan government authority of an agreement in which ShaMaran holds an interest.

Enforcement of judgments in foreign jurisdictions since the Company is party to contracts with counterparties located in a number of countries, most notably Kurdistan. Certain of its contracts are subject to English law with legal proceedings to be conducted in England. However, the enforcement of any judgments thereunder against a losing counterparty will be a matter of the laws of the jurisdictions where such losing counterparty is domiciled.

Change of control in respect of the Atrush PSC includes if a change of voting majority in the Contractor, or in a parent company occurs, provided the value of the interest in the Atrush Block represents more than 50% of the market value of assets in the party. Due to the limited amount of other assets held by the Company this will apply to a change of control in GEP or to ShaMaran as its sole parent company. A Change of control requires the consent of the KRG or it will trigger a default under the Atrush PSC and potential termination of GEP's interest in Atrush PSC if not remedied in the cure period of time specified.

Project and Operational Risks

Shared ownership and dependency on partners as ShaMaran's operations are conducted together with the Atrush Operator and the KRG in accordance with the terms of the Atrush PSC, Atrush JOA and the Atrush Facilitation Agreement (entered into in November 2016). As a result, ShaMaran has limited ability to exercise a veto over most Atrush operations or their associated costs and this could adversely affect ShaMaran's financial performance. If the Atrush Operator or the KRG fail to perform, ShaMaran may, among other things, risk losing rights or revenues or incur additional obligations or costs to itself perform in place of its partners. If a dispute would arise with the Atrush Operator or the KRG such dispute may have significant negative effects on the Company's financial performance.

Security risks in Kurdistan and other parts of Iraq have a history of political and social instability which have culminated in security problems which may put at risk the safety of the Company's personnel, interfere with the efficient and effective execution of the Atrush operations and ultimately result in significant losses to the Company. In 2021 there have been no significant security incidents in the Atrush Block.

Risks relating to infrastructure may occur as the Company is dependent on access to available and functioning infrastructure (including third party services in Kurdistan) relating to the Atrush Block, such as roads, power and water supplies, pipelines and gathering systems. If any infrastructure or systems failures occur or access is not possible or does not meet the requirements of the Atrush joint venture, the Atrush operations may be significantly hampered which could result in lower production and sales and or higher costs.

Environmental regulation and liabilities regarding drilling for and producing, handling, transporting and disposing of oil and gas and petroleum by-products are activities that are subject to extensive regulation under national and local environmental laws, including in Kurdistan. During the times the Company had exploration operations it implemented health, safety and environment policies since its incorporation, complied with industry environmental practices and guidelines for its operations wherever located and, to its knowledge and belief, the Atrush operations in Kurdistan is currently in compliance with these obligations in all material aspects. Environmental protection requirements have not, to date, had a significant effect on the capital expenditures and competitive position of ShaMaran. Future changes in environmental or health and safety laws, regulations or community expectations governing the Company's operations could result in adverse effects to the Company's business including, but not limited to, increased monitoring, compliance and remediation costs and or costs associated with penalties or other sanctions imposed on the Company for non-compliance or breach of environmental regulations.

Risk relating to community relations / labor disruptions as the Company's operations may be in or near communities that may regard operations as detrimental to their environmental, economic or social circumstances. Negative community reactions and any related labor disruptions or disputes could increase operational costs and result in delays in the execution of projects.

Petroleum Costs and cost recovery are defined under the terms of the Atrush PSC which provide the KRG the right to conduct an audit to verify the validity of incurred petroleum costs which the Atrush Operator has reported to the KRG and is therefore entitled under the terms of the Atrush PSC to recover through cash payments from future petroleum production. No such audit has yet taken place regarding the Atrush Petroleum Costs. Should any future audits result in negative findings concerning the validity of reported incurred petroleum costs the Company's petroleum cost recovery entitlement could ultimately be reduced.

Legal claims and disputes may cause the Company to suffer unexpected costs or other losses if a counterparty to any contractual arrangement entered into by the Company does not meet its obligations under such agreements.

Uninsured losses and liabilities may occur even though the Company maintains insurance in accordance with industry standards to address risks relating to its operations, the insurance coverage may under certain circumstances not protect it from all potential losses and liabilities that could result from its operations.

Availability of equipment and third party services are crucial for progressing Atrush development activities, such as drilling and related equipment and qualified staff in the areas where such activities are or will be conducted. Shortages of such equipment or staff may affect the availability of such equipment for Atrush operations and may delay and or increase the cost of the Atrush development activities.

Financial and Other Risks

Financial statements prepared on a going concern basis under which an entity is able to realize its assets and satisfy its liabilities in the ordinary course of business. Management has made assumptions regarding projected oil sale volumes and pricing, and the timing and extent of capital, operating, and general and administrative expenditures. Should production be materially less than anticipated or in case there are extended delays to the forecasted receipt of cash from the sale of oil exports or in the magnitude of those cash receipts, which are under the control of the KRG, and the Company was unable to defer certain planned cost activities, the Company could require additional liquidity to fund the forecasted Atrush operating and development costs and its commitments under the bond agreement in the next 12 months. The Company's future operations may be dependent upon certain factors such as the identification and successful completion of additional equity or debt financing or the re-financing or restructuring of the Company's current debt and the continued achievement of profitable operations. There can be no assurances that the Company will be successful in completing additional debt or equity financing or re-financing or achieving continued profitability. The consolidated financial statements do not give effect to any adjustments relating to the carrying values and classification of assets and liabilities that would be necessary should ShaMaran be unable to continue as a going concern.

Substantial capital requirements in the future for the development and production of oil and gas in Atrush Block. ShaMaran's results could impact its access to the capital necessary to participate in future drilling and development programs. To meet its operating costs and planned capital expenditures, ShaMaran may require financing from external sources, including from the sale of equity and debt securities. There can be no assurance that such financing will be available to the Company or, if available, that it will be offered on terms acceptable to ShaMaran.

Dilution may occur if the Company makes future acquisitions or enters into financings or other transactions involving the issuance of additional securities of the Company. If additional financing is raised through the issuance of equity or convertible debt securities, control of the Company may change and the interests of shareholders in the net assets of ShaMaran may be diluted.

Changes in tax legislation or tax practices applicable to the Company due to its entities incorporated and resident for tax purposes in Canada, the Cayman Islands, the Kurdistan Region of Iraq, Switzerland and the United States of America may increase the Company's expected future tax obligations associated with its activities in such jurisdictions.

Capital and lending markets as a result of general economic uncertainties and, in particular, the potential lack of risk capital available to the junior resource sector, the Company, along with other junior resource entities, may have reduced access to bank debt and to equity. As future capital expenditures will be financed out of funds generated from operations, bank borrowings if available, and possible issuances of debt or equity securities, the Company's ability to do so is dependent on, among other factors, the overall state of lending and capital markets and investor and lender appetite for investments in the energy industry generally, and the Company's securities in particular. To the extent that external sources of capital become limited or unavailable or available only on onerous terms, the Company's ability to invest and to maintain its existing business may be impaired, and its assets, liabilities, business, financial condition and results of operations may be materially and adversely affected as a result.

Uncertainty in financial markets may impact the Company's future ability to secure financing to grow its business. The uncertainty which periodically affects financial markets and the possibility that financial institutions may consolidate or go bankrupt has reduced levels of activity in the credit markets which could diminish the amount of financing available to companies. The Company's liquidity and its ability to access the credit or capital markets may also be adversely affected by changes in the financial markets and the global economy.

Conflict of interests may result ascertain directors of ShaMaran are also directors or officers of other companies, including oil and gas companies, the interests of which may, in certain circumstances, come into conflict with those of ShaMaran. If a conflict arises with respect to a particular transaction, the affected directors must disclose the conflict and abstain from voting with respect to matters relating thereto.

Risks Related to the Company's Bonds

Possible termination of Atrush PSC / bond agreements in event of default scenario should ShaMaran default its obligations under the bond agreement ShaMaran may also not be able to fulfil its obligations under the Atrush PSC and/or Atrush JOA, with the effect that these contracts may be terminated or the prescribed benefits to ShaMaran limited. In addition, should ShaMaran default its obligations under the Atrush PSC and/or Atrush JOA, with the effect that the rights of ShaMaran under these contracts may be terminated or limited, ShaMaran may also default in respect of its obligations under the bond agreement. Either default scenario could result in the cessation of the Company's future revenue generating activities and impair the Company's ability to meet its contractual commitments as they become due.

Ability to service bond indebtedness or to refinance its obligations under the bond agreement will depend on ShaMaran's financial and operating performance which, in turn, will be subject to prevailing economic and competitive conditions beyond ShaMaran's control. It is possible that ShaMaran's activities will not generate sufficient funds to make the required interest payments which could, among other things, result in an event of default under the bond agreement.

Significant operating and financial restrictions are set out in the terms and conditions of the bond agreement regarding ShaMaran's and the Guarantors' activities which restrictions may prevent ShaMaran and the Guarantors from taking actions that it believes would be in the best interest of ShaMaran's business and may make it difficult for ShaMaran to execute its business strategy successfully or compete effectively with companies that are not similarly restricted. No assurance can be given that it will be granted the necessary waivers or amendments if for any reason ShaMaran is unable to comply with the terms of the bond agreement. A breach of any of the covenants and restrictions could result in an event of default under the bond agreement.

Mandatory prepayment events are set out in the terms of the bond agreements on the occurrence of certain specified events, including if (i) the ownership in the Atrush Block is reduced to below 27.6% or (ii) an event of default occurs under the bond agreement or (iii) the affirmative vote of 50.1% of the bondholders exercise the put option. Following an early redemption after the occurrence of a mandatory prepayment event, it is possible that ShaMaran will not have sufficient funds to make the required redemption of the bonds which could, among other things, result in an event of default under the bond agreement.

DISCLOSURE CONTROLS AND INTERNAL CONTROL OVER FINANCIAL REPORTING

Disclosure controls and procedures have been designed to provide reasonable assurance that information required to be disclosed by the Corporation in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in the securities legislation. Management, under the supervision of the Chief Executive Officer, is responsible for the design and operation of disclosure controls and procedures.

Design of internal controls over financial reporting is the responsibility of Management to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. However, due to inherent limitations, internal control over financial reporting may not prevent or detect all misstatements and fraud. There have been no material changes to the Company's internal control over financial reporting during the three and twelve month periods ended December 31, 2021, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

CAUTIONARY STATEMENT REGARDING FORWARD LOOKING INFOMATION

This report contains statements and information about expected or anticipated future events and financial results that are forward-looking in nature and, as a result, are subject to certain risks and uncertainties, such as legal and political risk, civil unrest, general economic, market and business conditions, the regulatory process and actions, technical issues, new legislation, competitive and general economic factors and conditions, the uncertainties resulting from potential delays or changes in plans, the occurrence of unexpected events and management’s capacity to execute and implement its future plans.

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 the Company’s common shares. 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 ShaMaran and it is difficult to assess how these, and other factors, will continue to affect the Company and the market price of ShaMaran’s common shares. In light of the current situation, as at the date of this news release, 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.

Any statements that are contained in this report that are not statements of historical fact may be deemed to be forward-looking information. Forward- looking information typically contains statements with words such as "may", "will", "should", "expect", "intend", "plan", "anticipate", "believe", "estimate", "projects", "potential", "scheduled", "forecast", "outlook", "budget" or the negative of those terms or similar words suggesting future outcomes. The Company cautions readers regarding the reliance placed by them on forward-looking information as by its nature, it is based on current expectations regarding future events that involve a number of assumptions, inherent risks and uncertainties, which could cause actual results to differ materially from those anticipated by the Company.

Actual results may differ materially from those projected by management. Further, any forward-looking information is made only as of a certain date and the Company undertakes no obligation to update any forward-looking information or statements to reflect events or circumstances after the date on which such statement is made or reflect the occurrence of unanticipated events, except as may be required by applicable securities laws. New factors emerge from time to time, and it is not possible for management of the Company to predict all of these factors and to assess in advance the impact of each such factor on the Company’s business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking information.

RESERVES AND RESOURCE ADVISORY

ShaMaran's reserve and contingent resource estimates are as at December 31, 2021 and have been prepared and audited in accordance with National Instrument 51-101 Standards of Disclosure for Oil and Gas Activities ("NI 51-101") and the COGE Handbook. Unless otherwise stated, all reserves estimates contained herein are the aggregate of "proved reserves" and "probable reserves", together also known as "2P reserves". Possible reserves are those additional reserves that are less certain to be recovered than probable reserves. There is a 10% probability that the quantities actually recovered will equal or exceed the sum of proved plus probable plus possible reserves.

Contingent resources are those quantities of petroleum estimated, as at a given date, to be potentially recoverable from known accumulations using established technology or technology under development but are not currently considered to be commercially recoverable due to one or more contingencies. Contingencies may include factors such as economic, legal, environmental, political and regulatory matters or a lack of markets. There is no certainty that it will be commercially viable for the Company to produce any portion of the contingent resources.

BOEs may be misleading, particularly if used in isolation. A BOE conversion ratio of 6 Mcf per 1 Bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

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 May 23, 2022 its financial statements for the three months ended March 31, 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

Independent auditor's report

To the Shareholders of ShaMaran Petroleum Corp.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of ShaMaran Petroleum Corp. and its subsidiaries (together, the Company) as at December 31, 2021 and 2020, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited
The Company's consolidated financial statements comprise:

- the consolidated balance sheets as at December 31, 2021 and 2020;
- the consolidated statements of comprehensive income for the years then ended;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence
We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

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Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis and the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Colin Johnson.

PricewaterhouseCoopers SA

Colin Johnson | Dmytro Gotra

April 25, 2022

Consolidated Statement of Comprehensive Income

For the year ended December 31

Expressed in thousands of United States dollars	Note	For the year ended December 31, 2021	2020
Revenues	7	**102,323**	**56,673**
Cost of goods sold:			
Lifting costs	8	(19,893)	(23,154)
Other costs of production	8	(6,592)	(3,623)
Depletion	8	(25,949)	(22,790)
Gross margin on oil sales		**49,889**	**7,106**
Credit loss provision	15	2,038	(3,201)
Impairment loss	13,14	-	(116,164)
Depreciation and amortization expense		(219)	(205)
Share based payments expense	22	(1,627)	(1,663)
General and administrative expense	9	(7,836)	(8,181)
Income / (loss) from operating activities		**42,245**	**(122,308)**
Finance income	10	844	5
Finance cost	11	(29,627)	(22,076)
Net finance cost		**(28,783)**	**(22,071)**
Income / (loss) before income tax expense		**13,462**	**(144,379)**
Income tax expense	12	(79)	(46)
Income / (loss) for the year		**13,383**	**(144,425)**
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Re-measurements on defined pension plan		364	(411)
Items that may be reclassified to profit or loss:			
Currency translation differences		(70)	33
Total other comprehensive income/(loss)		**294**	**(378)**
Total comprehensive income/(loss) for the year		**13,677**	**(144,803)**
Income/ (Loss) in dollars per share:			
Basic and diluted		0.01	(0.07)

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

Consolidated Balance Sheet

As at December 31, 2021

Expressed in thousands of United States dollars	Note	2021	2020
ASSETS			
Non-current assets			
Property, plant and equipment	13	138,971	146,046
Right-of-use asset		57	199
Intangible assets	14	37	70
Loans and receivables	15	-	49,941
		139,065	**196,256**
Current assets			
Cash and cash equivalents, restricted	6	128,077	11,451
Loans and receivables	15	48,249	18,128
Cash and cash equivalents, unrestricted		43,589	16,967
Other current assets	16	9,485	571
		229,400	**47,117**
TOTAL ASSETS		**368,465**	**243,373**
LIABILITIES			
Non-current liabilities			
Loan from related party	19	21,748	19,215
Provisions	20	18,984	15,479
Pension liability	23	1,023	1,477
Cash-settled deferred share units	22	635	202
Lease liability		-	54
		42,390	**36,427**
Current liabilities			
Borrowings	18	280,999	188,416
Accounts payable and accrued expenses	17	10,589	3,578
Accrued interest expense on bonds	18	15,840	11,145
Current tax liabilities		58	6
Lease liability		51	134
		307,537	**203,279**
EQUITY			
Share capital	21	640,521	638,434
Share based payments reserve	22	9,446	8,766
Loan Share reserve	19	2,490	4,063
Cumulative translation adjustment		(20)	50
Accumulated deficit		(633,899)	(647,646)
		18,538	**3,667**
TOTAL EQUITY AND LIABILITIES		**368,465**	**243,373**

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

Signed on behalf of the Board of Directors

/s/Michael S. Ebsary	*/s/Chris Bruijnzeels*
Michael S. Ebsary, Director	Chris Bruijnzeels, Director

Consolidated Statement of Cash Flow

For the year ended December 31,

Expressed in thousands of United States dollars	Note	For the year ended December 31, 2021	2020
Operating activities			
Income / (loss) for the period		**13,383**	**(144,425)**
Adjustments for:			
Borrowing costs – net of amount capitalized		30,201	21,894
Depreciation, depletion and amortization expense		26,168	22,995
Share based payment expense		1,627	1,663
Re-measurements on defined pension plan		364	(411)
Impairment loss	*13,14*	-	116,164
Foreign exchange(gain) / loss	*10,11*	(12)	171
Interest income	*10*	(40)	(5)
Unwinding discount on decommissioning provision		(690)	(1)
Net gain from settlement of debt	*10*	(792)	-
Changes in accounts payable and accrued expenses		7,011	(5,424)
Changes in current tax liabilities		52	(36)
Change in pension liability		(402)	387
Changes in accounts receivables on Atrush oil sales		(4,053)	152
Changes in other current assets		(8,914)	(264)
Net cash inflows from operating activities		**63,903**	**12,860**
Investing activities			
Loans and receivables – payments received	*15*	23,873	9,096
Interest received on cash deposits	*10*	40	5
Credit/(purchase) of intangible assets		5	(51)
Purchase of property, plant and equipment		(14,220)	(8,849)
Net cash inflows from / (outflows to) investing activities		**9,698**	**201**
Financing activities			
Net proceeds received on new bond issue	*18*	109,800	-
Proceeds on loan from related party		-	22,800
Principal element of lease payments		(130)	(145)
Payments to repurchase bonds		(2,988)	-
Bonds retired	*18*	(14,208)	-
Payments to bondholders – interest	*18*	(22,724)	(22,802)
Net cash inflows from/ (outflows to) financing activities		**69,750**	**(147)**
Effect of exchange rate changes on cash and cash equivalents		(103)	(26)
Change in cash and cash equivalents		**143,248**	**12,888**
Cash and cash equivalents, beginning of the year		28,418	15,530
Cash and cash equivalents, end of the year*		**171,666**	**28,418**
***Inclusive of restricted cash**	*6*	**128,077**	**11,451**

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

Consolidated Statement of Changes in Equity
For the year ended December 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	**637,688**	**7,241**	**-**	**17**	**(502,810)**	**142,136**
Total comprehensive loss for the year:						
Loss for the year	-	-	-	-	(144,425)	(144,425)
Other comprehensive (loss)/gain	-	-	-	33	(411)	(378)
Transactions with owners in their capacity as owners:						
Share based payments expense (excluding DSU)	-	1,525	-	-	-	1,525
Reserve for loan shares to be issued	-	-	4,063	-	-	4,063
Loan Shares issued	655	-	-	-	-	655
RSU Shares issued	91	-	-	-	-	91
	746	1,525	4,063	33	(144,836)	(138,469)
Balance at December 31, 2020	**638,434**	**8,766**	**4,063**	**50**	**(647,646)**	**3,667**
Total comprehensive income for the year:						
Income for the year	-	-	-	-	13,383	13,383
Other comprehensive (loss)/gain	-	-	-	(70)	364	294
Transactions with owners in their capacity as owners:						
Share based payments expense (excluding DSU, Note 22)	-	680	-	-	-	680
Loan Shares issued (Note 19)	1,573	-	(1,573)	-	-	-
RSU Shares issued	514	-	-	-	-	514
	2,087	680	(1,573)	(70)	13,747	14,871
Balance at December 31, 2021	**640,521**	**9,446**	**2,490**	**(20)**	**(633,899)**	**18,538**

The accompanying Notes are an integral part of these 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 first half of 2022. Please refer to Note 6: Sarsang Acquisition for further detail.

2. Basis of preparation and going concern

a. Basis of preparation

These 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 April 25, 2022, the date these consolidated financial statements were approved and authorized for issuance by the Company's board of directors ("the Board").

b. Going concern

These 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 6, 18, 28 and 29 for additional information.

3. Significant accounting policies

a. Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries and entities controlled by the Company which apply accounting policies consistent with those of the Company. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity to obtain benefits from its activities. Subsidiaries are fully consolidated from the date on which control is obtained by the Company and are de-consolidated from the date that control ceases.

Intercompany balances and unrealized gains and losses on intercompany transactions are eliminated upon consolidation.

(b) Interest in joint operations

A joint operation is a contractual arrangement whereby the Company and other parties undertake an economic activity that is subject to joint control.

Where the Company undertakes its activities under joint operation arrangements directly, the Company's share of jointly controlled operations and any liabilities incurred jointly with other joint operations are recognized in the financial statements of the relevant company and classified according to their nature.

Liabilities and expenses incurred directly in respect of interests in jointly controlled operations are accounted for on an accrual basis. Income from the sale or use of the Company's share of the output of jointly controlled operations and its share of the joint operations are recognized when it is probable that the economic benefit associated with the transactions will flow to/from the Company and the amount can be reliably measured.

(c) Business combinations

The acquisition method of accounting is used to account for business combinations. The consideration transferred is measured at the aggregate of the fair values at the date of acquisition of assets given, liabilities incurred or assumed, and equity instruments issued by the Company in exchange for control of the acquiree. Acquisition related costs are expensed as incurred. The identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under *IFRS 3 Business Combinations* are recognized at their fair value at the acquisition date.

If the Company acquires control of an entity in more than one transaction the related investment held by the Company immediately before the last transaction when control is acquired is considered sold and immediately repurchased at the fair value of the investment on the date of acquisition. Any difference between the fair value and the carrying amount of the investment results in income or loss recognized in the statement of comprehensive income.

(d) Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of the Company's subsidiaries are measured using the currency of the primary economic environment in which the subsidiary operates (the "functional currency"). The functional and presentation currency of the Company is the United States dollar ("USD").

The results and financial position of subsidiaries that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities are translated at the closing exchange rate at the date of that balance sheet.
- Income and expenses are translated at the average exchange rate for the period in which they were incurred as a reasonable approximation of the cumulative effect of rates prevailing on transaction dates.
- All resulting exchange differences are recognized in other comprehensive income as part of the cumulative translation reserve.

Transactions and balances

Transactions in currencies other than the functional currency are recorded in the functional currency at the exchange rates prevailing on the dates of the transactions or valuation where items are re-measured. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at the balance sheet date. Exchange differences are recognized in the statement of comprehensive income during the period in which they arise.

(e) Exploration and evaluation costs and other intangible assets

Exploration and evaluation assets

The Company applies the full cost method of accounting for exploration and evaluation ("E&E") costs in accordance with the requirements of *IFRS 6 Exploration for and Evaluation of Mineral Resources*. All costs of exploring and evaluating oil and gas properties are accumulated and capitalized to the relevant property contract area and are tested on a cost pool basis as described below.

Pre-license costs:

Costs incurred prior to having obtained the legal rights to explore an area are expensed directly to the statement of comprehensive income.

Exploration and evaluation costs:

All E&E costs are initially capitalized as E&E assets and include payments to acquire the legal right to explore, costs of technical services and studies, seismic acquisition, exploratory drilling and testing.

Tangible assets used in E&E activities such as the joint operation's vehicles, drilling rigs, seismic equipment and other property, plant and equipment ("PP&E") used by the Company's exploration function are classified as PP&E. To the extent that such tangible assets are consumed in exploring and evaluating a property the amount reflecting that consumption is recorded as part of the cost of the intangible asset. Such intangible costs include directly attributable overhead including the depreciation of PP&E utilised in E&E activities together with the cost of other materials consumed during the E&E phases such as tubulars and wellheads.

E&E costs are not depreciated prior to the commencement of commercial production.

Treatment of E&E assets at conclusion of appraisal activities:

E&E assets are carried forward until commercial viability has been established for a contractual area which normally coincides with the commencement of commercial production. The E&E assets are then assessed for impairment and the carrying value after any impairment loss is then reclassified as oil and gas assets within PP&E. Until commercial viability has been established E&E assets remain capitalized at cost and are subject to the impairment test set out below.

Other intangible assets

Other intangible assets are carried at measured cost less accumulated amortisation and any recognized impairment loss and are amortised on a straight-line basis over their expected useful economic lives as follows:

- Computer software 3 years

(f) Property, plant and equipment

Oil and gas assets

Oil and gas assets comprise of development and production costs for areas where technical feasibility and commercial viability have been established and include any E&E assets transferred after conclusion of appraisal activities as well as costs of development drilling, completion, gathering and production infrastructure, directly attributable overheads, borrowing costs capitalized and the cost of recognising provisions for future restoration and decommissioning. Oil and gas costs are accumulated separately for each contract area.

Depletion of oil and gas assets:

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. The reserves correspond to the Company's entitlement to oil under the terms of the PSC.

Other property, plant and equipment

Other property, plant and equipment include expenditures that are directly attributable to the acquisition of an asset. Subsequent costs are included in the assets' carrying value or recognized as a separate asset as appropriate only when it is probable that future economic benefits associated with the item will flow to the Company and the cost can be measured reliably.

Repairs and maintenance costs are charged to the statement of comprehensive income during the period in which they are incurred.

The carrying amount of an item of PP&E is derecognized on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the statement of comprehensive income during the period.

Other property, plant and equipment assets are carried at cost less accumulated depreciation and any recognized impairment loss and are depreciated on a straight-line basis over their expected useful economic lives as follows:

- Furniture and office equipment 5 years
- Computer equipment 3 years

(g) Impairment of non-financial assets

E&E assets and oil and gas assets are assessed for impairment when facts and circumstances suggest that the carrying amount may exceed its recoverable amount. Such indicators 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 amount of either of the E&E or the 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.
- 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.

(h) Financial instruments

Financial assets and liabilities are recognized in the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the contractual rights to cash flows from the assets expire or the Company transfers the financial asset and substantially all the risks and rewards of ownership. Gains and losses on derecognition are generally recognized in the consolidated statement of income. The Company derecognizes financial liabilities when the Company's obligations are discharged, cancelled or expelled. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in the consolidated statement of income.

Classification and measurement

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 amortised 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.

Impairment of financial assets

The Company measures impairment of financial assets based on expected credit losses ("ECL"). Where financial assets have a significant financing component they are assessed and a lifetime ECL is determined, measured and recognized at the date of initial recognition of the loans and receivables. For its loans and receivables, the Company applies the simplified approach to providing for ECLs. In estimating the lifetime ECL provision, the Company considers historical industry default rates as well as the history of its customer.

(i) Cash and cash equivalents

Cash and cash equivalents are comprised of cash on hand and demand deposits and other short-term liquid investments that are readily convertible to a known amount of cash within three months or less from the acquisition date. Restricted cash is cash held in a trust account for a specific purpose and is therefore not available for general business use. Additional disclosure related to the Company's restricted cash is included in Note 6.

(j) Borrowings

Borrowings are recognized initially at fair value, net of any transaction costs incurred. Borrowings are subsequently carried at amortised cost using the effective interest rate method.

General and specific borrowing costs directly attributable to the acquisition or construction of qualifying assets are capitalized together with the qualifying assets. Once a qualified asset is fully prepared for its intended use and is producing borrowing costs are no longer capitalized. All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

(k) Taxation

The income tax expense comprises current income tax and deferred income tax. The current income tax is the expected tax payable on the taxable income for the period. It is calculated based on the tax laws enacted or substantively enacted at the balance sheet date and includes any adjustment to tax payable in respect of previous years.

Deferred income tax is the tax recognized in respect of temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases and is accounted for using the balance sheet liability method. Deferred income tax liabilities are generally recognized for all taxable temporary differences and deferred income tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred income tax is not recorded if it arises from the initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither the accounting profit nor loss.

Deferred income tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries and associates and interests in joint ventures except where the Company can control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred income tax is calculated at the tax rates that are expected to apply in the year when the deferred tax liability is settled, or the asset is realized. Deferred tax is charged or credited in the statement of comprehensive income except when it relates to items charged or credited directly to equity in which case the deferred tax is also recognized directly in equity. Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Income tax arising from the Company's activities under production sharing contracts is settled by the KRG at no cost and on behalf of the Company. However, the Company is not able to measure with sufficient accuracy the tax that has been paid on its behalf and consequently revenue is not reported gross of income tax paid.

(l) Provisions

Provisions are recognized when the Company has a present obligation, legal or constructive, due to a past event when it is probable that the Company will be required to settle the obligation and a reliable estimate can be made of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, accounting for the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flow estimates to settle the present obligation its carrying amount is the present value of those cash flows.

Decommissioning and site restoration

Provisions for decommissioning and site restoration are recognized when the Company has a present legal or constructive obligation to dismantle and remove production, storage and transportation facilities and to carry out site restoration work. The provision is calculated as the net present value of the Company's share of the expenditure expected to be incurred at the end of the producing life of each field using a discount rate that reflects the market assessment of the time value of money at that date. Unwinding of the discount on the provision is charged to the statement of comprehensive income within finance costs during the period. The amount recognized as the provision is included as part of the cost of the relevant asset and is charged to the statement of comprehensive income in accordance with the Company's policy for depreciation and amortisation.

Changes in the estimated timing of decommissioning and site restoration cost estimates are dealt with prospectively by recording an adjustment to the provision and a corresponding adjustment to the relevant asset.

(m) Pension obligations

The Company's Swiss subsidiary, ShaMaran Services SA, has a defined benefit pension plan that is managed through a private pension plan. Independent actuaries determine the cost of the defined benefit plan on an annual basis, and ShaMaran Services SA pays the annual insurance premium. The pension plan provides benefits coverage to the employees of ShaMaran Services SA in the event of retirement, death or disability. ShaMaran Services SA and its employees jointly finance retirement and risk benefits. Employees of ShaMaran Services SA pay 40% of the savings contributions, of the risk contributions and of the cost contributions and ShaMaran Services SA contributes the difference between the total of all required pension plan contributions and the total of all employees' contributions.

(n) Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issue of new shares or share options are shown in equity as a deduction, net of tax, from the proceeds.

(o) Share-based payments

The Company issues equity-settled share-based payments to certain directors, employees and third parties. The fair value of the equity settled share-based payments is measured at the date of grant. The total expense is recognized over vesting period, which is the period over which all conditions to entitlement are to be satisfied. The cumulative expense recognized for equity-settled share-based payments at each balance sheet date represents the Company's best estimate of the number of equity instruments that will ultimately vest. The charge or credit for the period and the corresponding adjustment to contributed surplus during the period represents the movement in the cumulative expense recognized for all equity instruments expected to vest. The fair value of equity-settled share-based payments is determined using the Black-Scholes option pricing model.

(p) Revenue recognition

Sales of oil production:

Revenue for sales of oil is recognized when the significant risks and rewards of ownership are deemed to have been transferred to the KRG, the amount can be measured reliably, and it is assessed as probable that economic benefit associated with the sale will flow to the Company. This occurs when oil reaches the delivery point at the Atrush Block boundary in route to the KRG's main export pipeline.

Revenue is recognized at fair value which is comprised of the Company's entitlement production due under the terms of the Atrush Joint Operating Agreement and the Atrush PSC which has two principal components: cost oil, which is the mechanism by which the Company recovers qualifying costs it has incurred in exploring and developing an asset, and profit oil, which is the mechanism through which profits are shared between the Company, its partners and the KRG. The Company pays capacity building payments on profit oil, which are due for payment once the Company has received the related profit oil proceeds. Profit oil revenue is reported net of any related capacity building payments.

The Company's oil sales are made to the KRG under the terms of a sales agreement which allows for Atrush oil volumes to be sold to the KRG at the Atrush Block boundary at a discount to the Dated Brent oil price for estimated oil quality adjustments and all local and international transportation costs. The Company's single performance obligation in its contract with its customer is the delivery of crude oil at a pre-determined netback adjustment to Dated Brent and the control is transferred to the buyer at the metering point when the revenue is recognized.

Interest income:

Interest income is recognized using the effective interest method. The effective interest rate exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

(q) Changes in accounting policies

There are no IFRS or interpretations that have been issued effective for financial years beginning on or after January 1, 2021, that would have a material impact on the Company's consolidated financial statements.

(r) Accounting standards issued but not yet applied

There are no new accounting standards which will come into effect for annual periods beginning on or after January 1, 2022, that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

4. Critical accounting judgments and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in Note 3, management has made judgments, estimates and assumptions about the carrying amounts of the assets, liabilities, revenues, expenses and related disclosures. These estimates and associated assumptions are based on historical experience, current trends and other factors that management believes to be relevant at the time these consolidated financial statements were prepared. Actual results may differ as future events and their effects cannot be determined with certainty and such differences could be material. Management reviews the accounting policies, underlying assumptions, estimates and judgments on an on-going basis to ensure that the financial statements are presented fairly in accordance with IFRS.

The following are the critical judgments and estimates that management has made in the process of applying the Company's accounting policies in these consolidated financial statements:

(a) Revenue Recognition

As explained in Note 3(p) the Company recognizes revenues when oil reaches the delivery point at the Atrush Block boundary on the basis that control is deemed to have passed to the buyer and that the transaction price has been agreed upon. The conclusion that the economic benefits will flow to the Company at this point is significant judgment and is based on management's evaluation that it is probable that the Company will collect the consideration from the KRG in exchange for their oil deliveries.

(b) Oil and gas reserves and resources

The business of the Company is the exploration and development of oil and gas reserves in Kurdistan. Estimates of commercial oil and gas reserves are used in the calculations for impairment, depreciation and amortisation and decommissioning provisions. Changes in estimates of oil and gas reserves resulting in different future production profiles will affect the discounted cash flows used for impairment purposes, the anticipated date of site decommissioning and restoration and the depreciation charges based on the unit of production method.

In February 2022 the Company received an independent reserves and resources report from McDaniel & Associates Consultants Ltd. ("McDaniel") which estimates the Proven plus Probable Oil Reserves on a Company gross basis for the Atrush Block as of December 31, 2021, to be 30.4 million barrels. McDaniel estimated the Proven plus Probable Oil Reserves on a Company gross basis for the Atrush Block as of December 31, 2020, to be 30.3 million barrels. Taking into account the Company's actual gross production for 2021 of 3.9 million barrels this represents a reserve replacement of 102.6%.

(c) Loans and receivables

The Company has reported receivables of $48.2 million (2020: $68 million), $nil non-current and $48.2 million current (2020 $50 million and $18 million respectively), comprised of the Company's share of Atrush oil sales and the Atrush Exploration Costs receivables, which relate to a share of the KRG's development costs carried by ShaMaran prior to the year 2016 and deemed to be exploration costs under the Atrush PSC, and which are repaid through an accelerated petroleum cost recovery arrangement. The recovery of these amounts depends on several factors, including: the continued production and exports of petroleum from the Atrush Block; oil price, and the financial environment in Kurdistan and the financial budget of the KRG. Up to the date these financial statements were approved, the Company has received payments from the KRG for its entitlement revenues in respect of petroleum production up to December 2021 with the exception of the deferred payments for oil deliveries made from November 2019 to February 2020. Refer to Note 15 for more information regarding these deferred payments.

In the year 2022 up to the date these financial statements were approved, the Company received a total of $40 million in payments relating to the loans and receivables balances outstanding at December 31, 2021. Under the terms of the relevant agreements the loans and receivable balances are recoverable in several ways including by cash settlement and or through payment in kind of petroleum production.

(d) Impairment of assets

IAS 36 Impairment of Assets and *IFRS 6 Exploration of and Evaluation of Mineral Resources* require that a review for impairment be carried out if events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

As described in Notes 3(g) and 3(h) management has considered whether there is any objective evidence to indicate that the carrying value of any of its Atrush related assets as at the balance sheet date were impaired and has concluded that facts and circumstances do not suggest that the carrying amount exceeds its recoverable amount. In reaching its conclusion management has considered factors which could impact the ability of the assets to generate future cash flows including the following key items:

- *Reserves:* there has been an increase, taking into account 2021 production, in the Company's share of the latest estimated proved and probable reserves for Atrush and the related production curve estimates as determined by McDaniel.
- *NPV calculations:* the net present value of the Company's share of 2P reserves, as determined by McDaniel and based on a forecasted Brent oil price, supports the book value of oil and gas assets included in property, plant and equipment.
- *Oil price:* significant improvement in the forecast Brent oil price since last year.
- *Costs per barrel:* the forecasted costs per barrel required to recover the Atrush oil reserves have remained consistent to last year.
- *Market:* there continues to be an active market and capacity for Atrush oil sales as demonstrated by the current and future expected levels of oil exports from Kurdistan.
- *Independent valuations:* the average fair value of the Atrush asset as determined by McDaniel, support the carrying values of the Atrush oil and gas assets.

(e) Decommissioning and site restoration provisions

The Company recognizes a provision for decommissioning and site restoration costs expected to be incurred to remove and dismantle production, storage and transportation facilities and to carry out site restoration work. The provisions are estimated taking into consideration existing technology and current prices after adjusting for expected inflation and discounted using rates reflecting current market assessments of the time value of money and where appropriate, the risks specific to the liability. The Company makes an estimate based on its experience and historical data. Refer also to Note 20.

5. 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.

6. 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 the Kurdistan Region of Iraq ("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 are held within restricted cash at December 31, 2021, along with a further $9.8 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. 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 1, 2b, 16, 17, 18, 19 and 29.

Expressed in thousands of United States dollars

7. 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 year 2021 were 14.1MMbbls (2020: 16.5MMbbls) and the Company's entitlement share was approximately 1.9MMbbls (2020: 2.2MMbbls) which were sold with an average netback price of $54.75 per barrel (2020: $26.26). Export prices are based on Dated Brent oil price with a discount for estimated oil quality adjustments and all local and international transportation costs. ShaMaran's oil entitlement share is based on export prices and on Atrush PSC terms covering allocation of profit oil, cost oil and capacity building payments owed to the KRG.

Refer also to Notes 15 and 24.

8. Cost of goods sold

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

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

Refer also to Notes 7, 13 and 25.

9. 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.

10. Finance income

	For the year ended December 31,	
	2021	2020
Net gain on settlement of debt	792	-
Interest on deposits	40	5
Total gain and interest income	**832**	**5**
Foreign exchange gain	12	-
Total finance income	**844**	**5**

The net gain on settlement of debt is due to the Company purchasing its Bonds in the market at commercially attractive rates, as permitted by the January 2021 amendment to the Bond terms, resulting in, at December 31, 2021, a net gain on settlement of $0.792 million which is included in finance income in the income statement.

Refer also to Note 18.

Expressed in thousands of United States dollars

11. Finance cost

	For the year ended December 31, 2021	2020
Interest charges on bonds at coupon rate	27,419	22,800
Amortization of the related party loan	2,534	1,132
Amortization of bond transaction costs	771	375
Bond remeasurement	-	(1,505)
Total borrowing costs	**30,724**	**22,802**
Interest expenses	80	-
Lease – interest expense	21	12
Finance Cost Bond purchase	15	-
Foreign exchange loss	-	171
Unwinding discount on decommissioning provision	(690)	(1)
Total finance costs before borrowing costs capitalized	**30,150**	**22,984**
Borrowing costs capitalized	(523)	(908)
Total finance cost	**29,627**	**22,076**

Interest charges in the year 2021 include accrued interest on the initial issue amount of $111.5 million of the 2025 Bond issued on July 30, 2021. Amortization of bond transaction costs includes amortization of $140 thousand relating to the call premium of the initial issue of the 2025 Bond. The call premium relates to the difference between the initial issue of $111.5 million principal amount and the gross cash proceeds of $109.8 million, as the 2025 Bond was issued at 98.5% of nominal value. Refer to Note 6.

Refer to Notes 18 and 19 regarding the related party loan and bond transaction costs.

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

12. Taxation

(a) Income tax expense

The current tax expense is incurred on the profits of the Swiss administrative company. The Company is not required to pay any cash corporate income taxes on its activities in Kurdistan as disclosed in Note 3(k).

There were no deferred tax assets recognized for losses incurred during the period as it is currently not probable that they will be recovered in subsequent years.

(b) Tax losses carried forward

The Company has tax losses and costs which are available to apply to future taxable income as follows:

	For the year ended December 31, 2021	2020
Canadian losses from operations	127,132	89,740
Canadian exploration expenses	2,464	2,395
Canadian unamortised share issue costs	71	279
U.S. Federal losses from operations	173,398	173,375
U.S. Federal tax basis in excess of carrying values of properties	3,654	3,654
Total tax losses carried forward	**306,719**	**269,443**

The Canadian losses from operations may be used to offset future Canadian taxable income and will expire over the period from 2028 to 2041. The Canadian exploration expenses may be carried forward indefinitely to offset future taxable Canadian income. Canadian unamortised share issue costs may offset future taxable Canadian income of years 2022 to 2024. The U.S. Federal losses may be available to offset future taxable income in the United States through 2032.

The Company has not recognized deferred tax assets amounting to approximately $72 million (2020: $72 million) as it is not probable that these amounts will be realized.

Expressed in thousands of United States dollars

13. Property, plant and equipment

	Oil and gas assets	Computer equipment	Furniture and office equipment	Total
At January 1, 2020				
Cost	269,353	317	337	270,007
Accumulated depletion and depreciation	(61,658)	(274)	(172)	(62,104)
Net book value	**207,695**	**43**	**165**	**207,903**
For the year ended December 31, 2020				
Opening net book value	207,695	43	165	207,903
Additions	9,520	4	(2)	9,522
Impairment	(48,550)	-	-	(48,550)
Depletion and depreciation expense	(22,790)	(16)	(23)	(22,829)
Net book value	**145,875**	**31**	**140**	**146,046**
At December 31, 2020				
Cost	230,325	75	217	230,617
Accumulated depletion and depreciation	(84,450)	(44)	(77)	(84,571)
Net book value	**145,875**	**31**	**140**	**146,046**
For the year ended December 31, 2021				
Opening net book value	145,875	31	140	146,046
Additions	18,878	59	-	18,937
Impairment	-	-	-	-
Depletion and depreciation expense	(25,949)	(20)	(43)	(26,012)
Net book value	**138,804**	**70**	**97**	**138,971**
At December 31, 2021				
Cost	249,203	133	210	249,546
Accumulated depletion and depreciation	(110,399)	(63)	(113)	(110,575)
Net book value	**138,804**	**70**	**97**	**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 & Associates Consultants Ltd. ("McDaniel"). During the year 2021, movements in PP&E were comprised of additions of $18.9 million (2020: $9.5 million), which included capitalized borrowing costs of $523 thousand (2020: $908 thousand), net of depletion of $26.0 million (2020: $22.8 million) and an impairment of $nil (2020: $48.6 million) which resulted in a net decrease to PP&E assets of $7.1 million.

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

Refer also to Notes 8 and 14.

Expressed in thousands of United States dollars

14. Intangible assets

	Exploration and evaluation assets	Other intangible assets	Total
At January 1, 2020			
Cost	67,616	346	67,962
Accumulated amortisation	-	(313)	(313)
Net book value	**67,616**	**33**	**67,649**
For the year ended December 31, 2020			
Opening net book value	67,616	33	67,649
Additions	-	51	51
Impairment	(67,616)	-	(67,616)
Amortisation expense	-	(14)	(14)
Net book value	**-**	**70**	**70**
At December 31, 2020			
Cost	-	92	92
Accumulated amortisation	-	(22)	(22)
Net book value	**-**	**70**	**70**
For the year ended December 31, 2021			
Opening net book value	-	70	70
Additions	-	(5)	(5)
Impairment	-	-	-
Amortisation expense	-	(28)	(28)
Net book value	**-**	**37**	**37**
At December 31, 2021			
Cost	-	84	84
Accumulated amortisation	-	(47)	(47)
Net book value	**-**	**37**	**37**

The net book value of intangible assets at December 31, 2021, relates to computer software.

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

Refer also to Note 13.

Expressed in thousands of United States dollars

15. Loans and receivables

At December 31, 2021, the Company had loans and receivables outstanding as follows:

	For the year ended December 31,	
	2021	**2020**
Accounts receivable on Atrush oil sales	40,599	38,584
Atrush Exploration Costs receivable	8,813	32,686
Credit Loss Provision	(1,163)	(3,201)
Total loans and receivables, net of provision	**48,249**	**68,069**
Current portion	48,249	18,128
Non-current portion	-	49,941

At December 31, 2020, $41.7 million of non-current loans and receivables was overdue. This related to $34 million of deliveries from November 2019 to February 2020 and an additional $7.7 million of Atrush Exploration Costs receivable invoiced over the same period. In December 2020 the KRG proposed a repayment mechanism for the $41.7 million owed to the Company. This proposal stated that a mechanism will be in place for repayment of amounts owed once the Brent oil price is over $50 per barrel in any month and that various amounts due to the KRG will be offset against the amounts owed from the KRG. At December 31, 2020, the Company assessed the proposal, taking into account counterparty discounting and credit risk, and estimated the future cash flows of the trade receivables. Under IFRS 9 this resulted in a $3.2 million adjustment to these trade receivables included in the statement of comprehensive income for the year ended December 31, 2020. The repayment mechanism began in January 2021, terms were updated by the KRG in March and May 2021, and at December 31, 2021, $24.4 million of the overdue receivables has been recovered with a further $7.04 million received after the balance sheet date. This includes the Company offsetting the $6.4 million production bonus against the outstanding receivables owed to the Company from the KRG, inline with the repayment mechanism proposed by the KRG. At the date of these financials the full amount has been invoiced to the KRG.

The Company has reassessed the expected credit losses of loans and receivables owed from the KRG and has partially released the previously recognised provision. The Company expects to recover the full nominal value of loans and receivables, however a provision remains to reflect credit risk.

All the loans and receivables are expected to be recovered within the next 12 months and are therefore all classified as a current loans and receivables at December 31, 2021.

In the year 2022 up to the date these financial statements were approved the Company had received a total of $40 million in payments relating to the total loans and receivables balances outstanding at December 31, 2021.

Expressed in thousands of United States dollars

16. Other current assets

	For the year ended December 31,	
	2021	**2020**
Prepaid expenses	9,102	217
Other receivables	383	354
Total other current assets	**9,485**	**571**

Costs in the amount of $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 at December 31, 2021.

Refer also to Notes 6 and 29.

17. Accounts payable and accrued expenses

	For the year ended December 31,	
	2021	**2020**
Accrued expenses	7,150	983
Payables to joint operations partner	3,021	2,067
Trade payables	418	528
Total accounts payable and accrued expenses	**10,589**	**3,578**

The increase in accrued expenses in the year 2021, compared to the year 2020, is due to accruals relating to the costs of refinancing the Company's bonds and work related to the rights offering as discussed in Notes 6 and 29.

18. Borrowings

The ShaMaran bond issued in 2018 carries a 12% fixed semi-annual coupon and matures on July 5, 2023 (the "2023 Bond"). At December 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 6.

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

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 December 31, 2021, 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 December 31, 2021. Upon successful closing of the Sarsang Acquisition, see Notes 2b and 6, this specified put option will no longer continue to exist following the exchange of the 2023 Bond for 2025 Bond.

Expressed in thousands of United States dollars

The movements in borrowings are explained as follows:

	For the year ended December 31,	
	2021	**2020**
Opening balance	**199,561**	**200,693**
2025 Bond issued	111,472	-
Interest charges at coupon rate	27,419	22,800
Amortization of bond transaction costs	771	375
2023 Bond remeasurement	-	(1,505)
Bond transaction costs	(1,672)	-
2023 Bond purchase	(2,988)	-
2023 Bond amount retired	(15,000)	-
Payments to 2023 bondholders – interest and call premiums	(22,724)	(22,802)
Ending balance	**296,839**	**199,561**
Current portion: borrowings	280,999	188,416
Current portion: accrued bond interest expense	15,840	11,145

Refer also to Note 11.

19. Loan from related party

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

In accordance with *IFRS 9 Financial Instruments* the liquidity guarantee is a compound financial instrument which has two parts: a liability component and an equity component. The fair value of the liability component is presented on the balance sheet as "loan from related party". The fair value of the equity is presented on the balance sheet as "Loan Share reserve". As Nemesia are issued the Company shares each month the Loan Share reserve value is transferred into share capital on a straight-line basis. During 2021 $1,573 thousand (2020: $655 thousand) has been transferred into share capital.

The 2021 movements in the liquidity guarantee loan balance are explained as follows:

	For the year ended December 31,	
	2021	**2020**
Opening balance	**19,215**	**-**
Amortization of the liability component	2,533	1,133
Cash received: full amount of the liquidity guarantee	-	22,800
FV of the equity component	-	(4,718)
Ending balance	**21,748**	**19,215**
Non-current liability: loan from related party	21,748	19,215

Upon successful closing of the Sarsang Acquisition, see Notes 6 and 29, the terms of this loan from Nemesia will be amended.

Refer also to Notes 11, 21 and 27.

Expressed in thousands of United States dollars

20. Provisions

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

The estimated costs have been discounted to net present value using a Bank of Canada long term bond yield rate of 1.680% (2020 year-end: 1.21%) and an inflation rate of 7.036% (2020 year-end: 1.362%).

	For the year ended December 31,	
	2021	**2020**
Opening balance	15,479	15,715
Changes in estimates and obligations incurred	(7,824)	460
Changes in discount and inflation rates	12,019	(695)
Unwinding discount on decommissioning provision	(690)	(1)
Total decommissioning and site restoration provisions	**18,984**	**15,479**

21. Share capital

The Company is authorized to issue an unlimited number of common shares with no par value.

The Company's issued share capital is as follows:

	Number of shares	Share capital
At January 1, 2020	**2,160,631,534**	**637,688**
Loan Shares issued	11,400,000	655
RSU Shares issued	3,836,667	91
At December 31, 2020	**2,175,868,201**	**638,434**
Loan Shares issued	27,360,000	1,572
RSU Shares issued	12,121,462	515
At December 31, 2021	**2,215,349,663**	**640,521**

As described in Note 19, the Company is required to issue to Nemesia 50,000 shares of ShaMaran for each $500 thousand drawn down per month until the drawn amount is repaid, which resulted in a total of 27,360,000 Loan Shares being issued during the year (2020: 11,400,000). 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.

During 2021 12,121,462 Restricted Share Units ("RSUs") vested in accordance with the Company's Share Unit Plan (2020: 3,836,667) and this quantity of the Company's shares were issued to plan participants (the "RSU Shares"). The carrying value of the shares has been determined based on the Company's closing share price on the vesting date.

Refer to Notes 22, 27 and 29.

Earnings per share

The earnings per share amounts were as follows:

	For the year ended December 31,	
	2021	**2020**
Net income / (loss), in dollars	13,383,000	(144,425,000)
Weighted average number of shares outstanding during the year	2,215,349,663	2,164,389,339
Weighted average diluted number of shares outstanding during the year	2,295,666,776	2,261,039,549
Basic and diluted income loss per share, in dollars	0.01	(0.07)

Expressed in thousands of United States dollars

22. 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 December 31, 2021, a total of 96,499,811 shares, 4% of issued share capital, had been granted of the possible 221,534,966 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").

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

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

The result of the movements in 2021, are charges to the Statement of Comprehensive Income for options of $654 thousand (2020: $1,269 thousand), for RSUs $540 thousand (2020: $346 thousand) and for DSUs $433 thousand (2020: $47 thousand). The carrying amount of the DSU liability at December 31, 2021, is $635 thousand (2020: $202 thousand).

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

	Number of share options outstanding	Number of RSUs outstanding	Number of DSUs outstanding
At December 31, 2020	**60,610,000**	**28,693,333**	**7,346,877**
Granted in the year	15,590,000	8,950,000	5,059,600
Expired/cancelled in the year	(14,210,000)	(3,418,537)	-
RSU Shares vested and issued in the year	-	(12,121,462)	-
At December 31, 2021	**61,990,000**	**22,103,334**	**12,406,477**
Quantities vested and unexercised:			
At December 31, 2020	28,950,000	-	7,346,877
At December 31, 2021	43,069,995	-	12,406,477
Weighted average remaining contractual life of options:			
At December 31, 2020		3.79 years	
At December 31, 2021		2.98 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

23. Pension liability

The Company operates a pension plan in Switzerland that is managed through a private pension plan and accounts for its pension plan in accordance with IAS 19. The amount recognized in the balance sheet associated with the Swiss pension plan is as follows:

	For the year ended December 31,	
	2021	2020
Present value of defined benefit obligation	2,663	3,539
Fair value of plan assets	(1,640)	(2,061)
Pension liability	**1,023**	**1,478**

The movement in the defined benefit obligation over the year is as follows:

	For the year ended December 31,	
	2021	2020
Opening balance	3,539	2,352
Current service cost	219	210
Ordinary contributions paid by employees	131	139
Additional contributions paid by employees	33	220
Interest expense on defined benefit obligation	8	7
Administration costs	5	5
Past service cost	(67)	(34)
Foreign exchange (gain) / loss	(126)	292
Actuarial (gain) / loss on defined benefit obligation	(358)	417
Benefits paid from plan assets	(721)	(69)
Defined benefit obligation, ending balance	**2,663**	**3,539**

The weighted average duration of the defined benefit obligation is 18.01 years. There is no maturity profile since the average remaining life before active employees reach final age according to the plan is 9.41 years.

The movement in the fair value of the plan assets over the year is as follows:

	For the year ended December 31,	
	2021	2020
Opening balance	2,061	1,383
Ordinary contributions paid by employer	197	209
Ordinary contributions paid by employees	131	139
Additional contributions paid by employees	33	220
Return on plan assets excluding interest income	6	5
Interest income on plan assets	5	4
Foreign exchange (loss) / gain	(72)	170
Benefits paid from plan assets	(721)	(69)
Fair value of plan assets, ending balance	**1,640**	**2,061**

The plan assets are under an insurance contract comprised entirely of free funds and reserves, such as fluctuation reserves and employer contribution reserves, for which there is no quoted price in an active market.

The amount recognized in the income statement associated with the Company's pension plan is as follows:

	For the year ended December 31,	
	2021	2020
Current service cost	219	210
Interest expense on defined benefit obligation	8	7
Administration costs	5	5
Interest income on plan assets	(5)	(4)
Past service cost	(67)	(34)
Total expense recognized	**160**	**184**

Expressed in thousands of United States dollars

The expense associated with the Company's pension plan of $160 thousand was included within general and administrative expenses. The Company also recognized in other comprehensive gain a $364 thousand net actuarial gain on defined benefit obligations and pension plan assets.

The principal actuarial assumptions used to estimate the Company's pension obligation are as follows:

	For the year ended December 31,	
	2021	2020
Discount rate	0.20%	0.20%
Inflation rate	1.00%	1.00%
Future salary increases	1.00%	1.00%
Future pension increases	0.00%	0.00%
Retirement ages, male ('M') and female ('F')	M65/F64	M65/F64

Assumptions regarding future mortality are set based on actuarial advice in accordance with the BVG 2020 GT generational published statistics and experience in Switzerland. The discount rate is determined by reference to the yield on high-quality corporate bonds. The rate of inflation is based on the expected value of future annual inflation adjustments in Switzerland. The rate for future salary increases is based on the expected average increase in salaries to be paid by the Company, and the rate of pension increases is based on the annual increase in risk, retirement and survivors' benefits. Contributions to the Company's pension plan during 2022 are expected to total $0.2 million.

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is:

	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	0.50%	decrease by 8.4%	increase by 9.7%
Salary growth rate	0.50%	increase by 0.8%	decrease by 0.7%
Life expectancy	1 year	increase by 1.6%	decrease by 1.6%

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions, the same method has been applied as when calculating the pension liability recognized within the consolidated balance sheet. There have been no changes to the sensitivity analysis method this year.

Expressed in thousands of United States dollars

24. 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 December 31, 2021	At December 31, 2020
Cash and cash equivalents, restricted [2]		128,077	11,451
Loans and receivables[2] [5]		48,249	68,069
Cash and cash equivalents, unrestricted [2]		43,589	16,967
Other receivables [2]		383	354
Total financial assets		**220,298**	**96,841**

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

Financial liabilities

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

	Fair value hierarchy [6]	Carrying values At December 31, 2021	At December 31, 2020
Borrowings [3] [6]	Level 2	280,999	188,416
Related party loan[4]	Level 2	21,748	19,215
Accrued interest on bonds		15,840	11,145
Accounts payable and accrued expenses [2]		10,589	3,578
Current tax liabilities		58	6
Total financial liabilities		**329,234**	**222,360**

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

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

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

[3] The Company estimates the fair value of its borrowings at the balance sheet date is $283.5 million (December 31, 2020: $171 million) based on recent trades of the Company's bonds.

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

[5] An impairment has been made to the loans and receivables, see Note 15 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.

Capital risk management

The Company manages its capital to ensure that entities within the Company will be able to continue as a going concern, while maximising return to shareholders. The capital structure of the Company consists of cash and cash equivalents and equity, comprising issued share capital, reserves and retained earnings as disclosed in the consolidated statement of changes in equity. The Company had debt relating to borrowings and accrued interest of $323.1 million as at December 31, 2021 (2020: $218.8 million). Refer also to Notes 18 and 19.

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

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 characterised 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 ICE 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. Refer also to Notes 4(d) and 28.

The table below summarises the effect that a change in the Dated Brent oil price would have had on the net income during the year ended December 31, 2021:

Net Income reported in the financial statements	13,383	13,383
Possible shift - (decrease) / increase in Dated Brent oil price in %	(15%)	15%
Total (decrease) / increase in the net income	**(19,773)**	**19,773**

The Company does not hedge against commodity price risk.

Foreign currency risk

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, Swiss Francs ("CHF") and Canadian dollars ("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.

The carrying amounts of the Company's principal monetary assets, liabilities and equity denominated in foreign currency at the reporting date are as follows:

	Assets December 31,		Liabilities December 31,		Equity December 31,	
	2021	**2020**	**2021**	**2020**	**2021**	**2020**
Canadian dollars in thousands ("CAD 000")	46	14	31	259	152,895	225,801
Swiss francs in thousands ("CHF 000")	558	632	1,651	948	-	-

Expressed in thousands of United States dollars

Foreign currency sensitivity analysis

The Company is exposed to movements in CHF and CAD against the USD, the presentational currency of the Company. Sensitivity analyses have been performed to indicate how the profit or loss would have been affected by changes in the exchange rates between the USD and CHF and CAD. The analysis below is based on a strengthening of the CHF and CAD by 10% against the USD in which the Company has assets, liabilities and equity at the end of respective period. A movement of 10% reflects a reasonably possible sensitivity when compared to historical movements over a three to five-year timeframe. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjust their translation at the period end for a 10% change in foreign currency rates.

A positive number in the table below indicates an increase in profit where USD weakens 10% against the CHF or CAD based on the CHF and CAD assets, liabilities and equity held by the Company at the balance sheet dates. For a 10% strengthening of the USD against the CHF or CAD there would be an equal and opposite impact on the profit or loss.

	Assets		Liabilities		Equity	
	2021	2020	2021	2020	2021	2020
Statement of comprehensive income - CAD	3	1	(2)	(17)	(10,294)	(14,996)
Statement of comprehensive income - CHF	75	91	(223)	(137)	-	-

Interest rate risk

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

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.

The Company is highly leveraged though financing at the project level, for the continuation of Atrush project, and at the corporate level due to the $175 million of 2023 Bond which have been issued since July 2018 and $111.5 million of 2025 Bond which has been issued since July 2021. However, the Company is not exposed to interest rate risks associated with the bonds as the interest rate is fixed.

Interest rate sensitivity analysis

Based on exposure to the interest rates for cash and cash equivalents at the balance sheet date an increase or decrease of 1% in the interest rate would not have a material impact on the Company's profit or loss for the year. An interest rate of 1% is used as it represents management's assessment of the reasonably possible changes in interest rates.

Credit risk

Credit risk is the 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 and other 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

Liquidity risk is the risk that the Company will have difficulties meeting its financial obligations as they become due. In common with many oil and gas exploration companies, the Company raises financing for its exploration and 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 acquisition, exploration, 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.

Expressed in thousands of United States dollars

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 authorisations for expenditure on both operating and non-operating projects to further manage capital expenditures.

The maturity profile of the Company's financial liabilities is indicated by their classification in the consolidated balance sheet as "current" or "non-current".

The remaining maturities of financial liabilities are shown in the table below. Borrowings reflect the classification of the ShaMaran bonds as "less than one year" due to the put option described in Note 18 and thus does not include anticipated interest payments of $112 million over the life of the bonds. The Company does not anticipate the put option to be exercised.

	Less than one year	From one to two years	Total
Borrowings	303,481	-	**303,481**
Loan from related party	-	26,220	**26,220**
Payables to joint operations partner	3,021	-	**3,021**
Trade payables and accrued expenses	7,568	-	**7,568**
Total	**314,070**	**26,220**	**340,290**

Refer to Notes 17, 18 and 19.

25. Commitments and contingencies

At December 31, 2021, the outstanding commitments of the Company were as follows:

	For the year ended December 31,				
	2022	2023	2024	Thereafter	Total
Atrush Block development and PSC	52,966	166	166	1,324	**54,622**
Corporate office and other	65	-	-	-	**65**
Total commitments	**53,031**	**166**	**166**	**1,324**	**54,687**

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.

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

Refer to Note 8.

Expressed in thousands of United States dollars

26. Interests in joint operations and other entities

Interests in joint operations - Atrush Block Production Sharing Contract

ShaMaran holds a 27.6% interest in the Atrush PSC through GEP. TAQA Atrush B.V. is the Operator of the Atrush Block with a 47.4% direct interest and the KRG holds a 25% direct interest. TAQA, the KRG and GEP together are "the Contractors" to the Atrush PSC.

Under the terms of the Atrush PSC the development period is for 20 years with an automatic right to a five-year extension and the possibility to extend for an additional five years. All qualifying petroleum costs incurred by the Contractors shall be recovered from a portion of available petroleum production, defined under the terms of the Atrush PSC. All modifications to the Atrush PSC are subject to the approval of the KRG. 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.

Refer also to Notes 13 and 29.

Information about subsidiaries

The consolidated financial statements of the Company include:

Subsidiary	Principal activities	Country of Incorporation	% Equity interest as at 31 Dec 2021	31 Dec 2020
General Exploration Partners, Inc.	Oil exploration and production	Cayman Islands	100	100
ShaMaran Services S.A.	Technical and admin. services	Switzerland	100	100
Bayou Bend Petroleum U.S.A. Ltd	Petroleum activities	United States	100	100
0781756 B.C. Ltd	Petroleum activities	Canada	100	100

27. Related party transactions

Transactions with corporate entities

	Purchase of services during the year		Amounts owing at the balance sheet dates	
	2021	2020	2021	2020
Nemesia	2,709	1,215	1,830	690
Namdo Management Services Ltd	34	46	-	-
Total	**2,743**	**1,261**	**1,830**	**690**

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

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

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

Refer to Notes 6, 11, 19 and 21.

Expressed in thousands of United States dollars

Key management compensation

The Company's key management was comprised of its directors and executive officers who have been remunerated as follows:

	For the year ended December 31, 2021	2020
Management's share-based payments	948	1,177
Management's salaries	924	1,065
Management's short-term benefits	707	324
Directors' share-based payments	438	47
Directors' fees	261	300
Management's pension benefits	171	184
Total	**3,449**	**3,097**

Short-term employee benefits include non-equity incentive plan compensation and other short-term benefits. Share-based payments compensation represents the portion of the Company's share-based payments expense incurred during the year attributable to the key management, accounted for in accordance with *IFRS 2 'Share Based Payments'.*

28. Impact of COVID-19

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

29. Subsequent events

On January 5, 2022, the Company paid in full the January 2022 interest payment due on its 12% senior unsecured 2023 Bond. Following on January 30, 2022, the Company paid in full the January 2022 interest payment due on its 12% senior unsecured 2025 Bond.

Since December 31, 2021, a further 9,120,000 Loan Shares have been issued to Nemesia in accordance with the Company's obligations.

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.

Refer to Notes 2b, 6, 16, 17, 18, 19, 21 and 26.

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Chris Bruijnzeels
Director, Chairman

Michael S. Ebsary
Director

Keith C. Hill
Director

William A.W Lundin
Director

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STOCK EXCHANGE LISTINGS

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

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