ShaMaran petroleum corp

2022

ShaMaran petroleum corp

Annual Report

For the year ended December 31, 2022

Contents

Management's Discussion and Analysis

For the three months ended and year ended December 31, 2022

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 March 8, 2023 and is intended to provide an overview of the Company's operations, financial performance and current and future business opportunities. The MD&A should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2022, together with the accompanying notes ("Financial Statements").

Company Overview

ShaMaran is in the business of developing and producing oil and gas. The Company has a 27.6% participating interest in the Atrush Block, Kurdistan Region of Iraq through its wholly owned subsidiary General Exploration Partners, Inc. ("GEP"). On September 14, 2022, the Company announced that it successfully closed the acquisition of TEPKRI Sarsang A/S (the "Sarsang Acquisition"), a wholly owned subsidiary of TotalEnergies S.E. ("TTE"). The Company now also holds an 18% participating interest (22.5% paying interest) in the Sarsang Block, Kurdistan Region of Iraq through its wholly owned subsidiary ShaMaran Sarsang A/S (the change of name was made immediately after closing).

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").

2022 HIGHLIGHTS

During 2022, ShaMaran continued its transformational journey with two key accomplishments: 1) the successful closing of the Sarsang Acquisition which has significantly enhanced the Company's production and reserves (as further detailed below); and 2) the Company's merger of its two outstanding bonds into a single $300 million issue with a 4-year tenor due July 2025 (the "2025 bond"). ShaMaran's total gross 2P reserves have grown by 225%, mainly due to the Sarsang acquisition, but also due to improved well performance and positive oil price revisions. Throughout 2022, the Company continued to deliver strong results, reflected in the gross margin on oil sales, cash flow from operations and EBITDAX[1] results, as shown below. This strong cash generation enabled the Company to purchase more of its own bonds at commercially attractive prices during the year, resulting in ShaMaran now owning in excess of 10% of the 2025 Bond, and enabled the Company to prepay in full (together with applicable interest) the Convertible Loan Note issued to an affiliate of TTE in connection with the closing of the Sarsang Acquisition.

Corporate Highlights - the Sarsang Acquisition:

- On September 14, 2022 the Company announced the closing of the Sarsang Acquisition. ShaMaran has become a more diversified company with stakes in three world class producing oil fields (Atrush, Swara Tika and East Swara Tika) in Kurdistan with improved oil qualities and complementary production horizons.

Financial Highlights:

	Three months ended Dec31		Year ended Dec31	
USD Thousands	2022	2021	2022	2021
Revenue	53,173	27,439	176,665	102,323
Gross margin on oil sales	15,194	12,662	105,941	49,889
Net result	12,347	4,061	114,959	13,383
Cash flow from operations	12,551	23,336	105,283	63,903
EBITDAX	39,624	18,456	140,060	66,375

- Delivered Q4 2022 oil sales of $53.2 million; for the full year ("FY") year 2022 the Company achieved the highest-ever annual oil sales revenues of $176.7 million;
- Generated cash flow from operations of $12.6 million for Q4 2022 and $105.3 million for FY 2022;
- Reported very strong EBITDAX of $39.6 million in Q4 2022 and $140.1 million for FY 2022, representing a 210% increase over the EBITDAX of FY 2021;
- Merged existing bonds into one single $300 million issue bond, with interest on all bonds fully paid to January 30, 2023;
- Acquired more of its own bonds, and currently owns in excess of 10% of the 2025 bond; and
- Payments have been received to date for oil sales through to August 2022, for both Atrush and Sarsang. The Company (together with other International Oil Companies) remains in discussions with the KRG about the appropriate recovery mechanism for these receivables, however in line with precedents full recovery is expected.

Operational Highlights:

- As of year-end 2022, the Atrush field achieved a cumulative production of approximately 67 MMbbls and the Sarsang field a cumulative production of approximately 55 MMbbls;
- Grew the Company's gross 2P reserves[2] by 225% from 30.4 MMbbls at December 31, 2021 to 68.3 MMbbls at December 31, 2022, which resulted in a ShaMaran record high 2P net reserves replacement ratio[2] of 950%[3], and extended the Company's 2P Reserves Life Index[4] to nearly 12 years;
- Reported Q4 2022 gross average production of approximately 75,697 bopd, resulting in 16,761 bopd net to ShaMaran;
- Recorded FY 2022 lifting costs per barrel of $5.47 which was higher than 2021 lifting costs of $5.12 per barrel but within the 2022 guidance (the increase is mainly due to higher diesel prices); and
- Invested $22.2 million in FY 2022 Atrush net capital expenditures.

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1 Earnings before interest, tax, depletion, depreciation, amortization, 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, 2022, and are included in the report prepared by McDaniel & Associates Consultants Ltd., an independent qualified reserves evaluator, in accordance with National Instrument 51-101 – *Standards of Disclosure for Oil and Gas Activities* (NI 51-101) and the Canadian Oil and Gas Evaluation Handbook (the COGE Handbook) and using McDaniel's January 1, 2023 price forecasts. Certain abbreviations and technical terms used in this MD&A are defined or described under the heading "Other Supplementary Information".

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

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

2023 GUIDANCE

- Net average daily production of 15,000 to 18,000 bopd;
- Net operating costs of $40.5 million;
- Average lifting costs per barrel of $5.40 to $6.60; and
- Net capital expenditure budget of $63.6 million.

2023 operating costs and capital expenditures are pending the final approval of the Atrush 2023 budget by the Kurdistan Regional Government ("KRG").

OPERATIONS REVIEW

Business Overview

The fourth quarter of 2022 has seen a continuation of strong market conditions for oil producers. Although oil prices have remained strong during the quarter, they declined somewhat versus Q3 2022, reflective of macroeconomic uncertainties in the markets as well as geopolitical dynamics linked to the Russian crude export ban imposed in December 2022.

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

The Russian invasion of Ukraine in late February 2022 and the continued conflict has triggered a severe response from the international community further exacerbating global oil market supply shortage. The profound effects of this crisis could be long lasting as consumers and producers alike reshape their thinking around access to resources and security of supply. The Company notes the implications for commodity prices and potential interruptions of supply chains and third-party services from this ongoing conflict. The Company is also monitoring international sanctions and trade control legislation in order to mitigate any potential impact on the Company's operations. To date, the Russia-Ukraine conflict has had no direct material adverse impact on Company operations. However, since the Kurdistan Regional Government ("KRG") buys all oil production from Atrush and Sarsang fields and sells it at Ceyhan primarily in the Mediterranean crude market, the Russia-Ukraine conflict is indirectly impacting the Company's results. Russian sales of heavily discounted Urals crude barrels in the Mediterranean crude market have resulted in lower realized prices for Kurdistan crude, an impact that is expected may dissipate post the imposition of EU sanctions in late 2022 and early 2023. Reflective of this market dynamic, the KRG has requested all International Oil Companies ("IOCs") to enter into new lifting agreements which reference the Kurdistan Blend ("KBT") crude monthly pricing sold at Ceyhan. HKN, the operator of Sarsang, and on behalf of ShaMaran Sarsang A/S, the wholly-owned subsidiary of the Company holding an interest in Sarsang Block, has agreed to sign the new lifting agreement amendment whereas TAQA Atrush B.V. ("TAQA" a subsidiary of Abu Dhabi National Energy Company PJSC, and the "Atrush Operator"), is still negotiating with the KRG the terms of a new lifting agreement amendment. The proposed new lifting arrangements have an effective date of September 1, 2022 and the Company has used KBT prices for both assets when recognizing revenue from this effective date.

ShaMaran remains optimistic that oil prices will remain robust for a number of years despite uncertainties in demand and supply in the global market. However, the Company will continue to maintain its financial discipline and is very well positioned to further grow as new market opportunities present themselves in Kurdistan and elsewhere. Going forward the Company's financial metrics will strengthen even further and in the current oil price environment, we expect strong cashflows from our three producing oil fields. We look forward to seeing the value created through our successful operations, further organic growth and potential future acquisitions to translate into much stronger growth in shareholder value for years to come. We are executing on our strategic vision to be a world class producer in Kurdistan with sustainable growth, low-leverage and significant cash flow generation. We have a strong cash position, and in the current oil price environment, we expect continued strengthening of our financial and operational metrics.

Environmental, social and governance considerations are important to ShaMaran and as previously announced in 2022, ShaMaran entered into an initial three (3) year commitment as exclusive corporate sponsor of the Hasar 2025 Vision (including the Million Tree Project) being developed and administered by Hasar for Earth Sciences ("Hasar"), a non-governmental organization formed in Kurdistan Region of Iraq. The planting of trees in Erbil and its vicinity by Hasar has already commenced. ShaMaran's sponsorship of Hasar with support from the Company's technical, legal, financial and administrative sources have worked on enhancing the goals of these projects and developed the "Erbil 2030 Strategy", a significant reforestation project which according to Hasar aims to plant in excess of 100 million indigenous trees in and around Erbil over the next decade. ShaMaran intends to continue providing such support to Hasar for the Erbil 2030 Strategy Project as well as assistance in working with local authorities on green belt/reforestation efforts to ensure the project's success. ShaMaran has started the process for certification of carbon credits for this significant reforestation project and related activities which is a first-of-its-kind in Kurdistan. These credits will be used by the Company to offset its carbon emissions in the Atrush and Sarsang Blocks. According to the Company's environmental consultants, the Erbil reforestation project is breaking new ground and is unique in the MENA region on many levels, not least in the intent to offset Scope 1 and 2 emissions through a local, in-country initiative. Over the next year, ShaMaran plans to develop a detailed energy transition strategy to achieve net carbon neutrality. Future potential investment decisions by the Company in its growth plans will be carefully evaluated for alignment with that strategy and its objectives.

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

During 2022 the Company joined HSBC's Green Deposit program, an opportunity to invest surplus cash balances into environmentally friendly projects and initiatives in Canada financed by the HSBC bank. The Company has deposited an initial $15 million in a Green Deposit account further demonstrating the Company's commitment to environmental, social and governance considerations in Canada as well as Kurdistan.

With the risks and uncertainties disclosed in this MD&A, together with the risks disclosed in the Company's Annual Information Form dated April 25, 2021, management has not identified other trends or events that are expected to have a material adverse effect on the financial performance of the Company.

The Company in its next Annual Information Form for the year ended December 31, 2022 will incorporate relevant information on its newly acquired Sarsang assets together with its Atrush asset which will be available on the Company's website at www.shamaranpetroleum.com and on SEDAR at www.sedar.com, under the Company's profile no later than June 30, 2023.

Operations Overview

Reserves and Resources

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

- Grew the Company's gross 2P reserves[5] by 225% from 30.4 MMbbls at December 31, 2021 to 68.3 MMbbls at December 31, 2022;
- Achieved a ShaMaran record high 2P net reserves replacement ratio[2] of 950%[6];
- Increased the Company's net unrisked best estimate of contingent oil resources ("2C")[7] nearly 20% from the 2021 estimate of 34.8 MMbbls to 41.5 MMBbls as at December 31, 2022, mainly due to the closing of the Sarsang Acquisition;
- Extended the Company's 2P Reserves Life Index[8] to nearly 12 years; and
- Reported total discovered oil in place has a low estimate of 2.3 billion barrels, a best estimate of 2.8 billion barrels and a high estimate of 3.8 billion barrels for Atrush and Sarsang Blocks combined.

For more information on reserves and resources, please reference our Form 51-101 F1 Statement of Reserves Data and Other Oil and Gas Information as at December 31, 2022 and available in the Company's profile on SEDAR at www.sedar.com

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

6 2P Net Reserves Replacement Ratio defined as the ratio of reserves additions to production during the year including impacts of acquisitions and dispositions.

7 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.

8 2P Reserve Life Index is defined as the Company reserves divided by the Company December 2022 annualized production.

Production

		Three months ended Dec 31		Year ended Dec31	
		2022	2021	**2022**	2021
Average daily oil production – gross 100% field (Mbopd)					
- Atrush		32.7	35.3	35.9	38.6
- Sarsang (from September 15, 2022)		43.0	-	12.2	-
Total		**75.7**	**35.3**	**48.1**	**38.6**
Oil sales – gross 100% field (Mbbl)					
- Atrush		3,004	3,246	13,098	14,080
- Sarsang (from September 15, 2022)		3,959	-	4,448	-
Total		**6,963**	**3,246**	**17,546**	**14,080**
ShaMaran's oil sales entitlement (Mbbl)					
- Atrush	27.6%	398	431	1,739	1,869
- Sarsang (from September 15, 2022)	18%	447	-	494	-
Total		**845**	**431**	**2,232**	**1,869**

Atrush production for the year and quarter were 7% lower in 2022 compared to 2021.

The Atrush production well CK-18 , spudded from the Chamanke G Pad, was drilled to total depth in September 2022 with a 950m section drilled horizontally through the Lower Jurassic Mus formation. The well is currently being sidetracked and is expected to be recompleted during 2023.

In October 2022 the Atrush production well, CK-19, was spudded from the Chamanke C Pad. Targeting the Upper Jurassic Sargelu formation, the well is forecast to commence production in Q1 2023.

Sarsang production and ShaMaran's entitlement of oil sales for the year 2022 is only from after the closing of the acquisition on September 14,2022, therefore there are no previous year comparisons.

Operational Outlook

With steady oil prices in 2023, the Company anticipates a continuation of strong operating cash flow that will be supported with prudent capital deployment in the coming year. The Company reiterates the Atrush and Sarsang guidance set for 2023 provided in its news release of February 16, 2023, as follows:

- 2023 net average daily production guidance of 15,000 to 18,000 bopd;
- Net capital expenditures for 2023 in both blocks planned at $63.6 million, pending final approval of the Atrush 2023 budget by the KRG;
- Net operating expenditure is forecast to be $40.5 million for 2023, also pending approval of the Atrush 2023 budget; and
- Average lifting costs per barrel are estimated to range from $5.40 to $6.60. Lifting costs are mainly fixed costs and dollar-per-barrel estimates should decrease with increasing levels of production and operational efficiencies; however rising oil prices do have a negative impact on lifting costs as diesel is an important element of operating costs.

As previously announced in September 2021, TAQA conducted a strategic review of their oil and gas business. As announced on July 5, 2022, TAQA decided to remain in the oil and gas business and re-engaged with us as co-venturers on further investments and future production growth; however, the increase in drilling activity at Atrush will require a few more quarters before it is reflected in higher production levels at the field. The Company is fully engaged with the Atrush Operator and the Government to maximize production from the Atrush field.

Shortly following the end of the third quarter of 2022, the Company confirmed that the Sarsang operator, on behalf of itself and the Company's wholly-owned subsidiary, ShaMaran Sarsang A/S, has signed an amendment to the Sarsang Block Lifting Agreement with the KRG regarding the sale and purchase of all crude oil production from Sarsang Block. This amendment became effective retroactively to September 1, 2022. The primary effect of the new Lifting Agreement is to change the reference price for Sarsang crude oil sales payments from Dated Brent to KBT in order to reflect current market conditions for oil sales at Ceyhan, together with the necessary adjustments for crude quality due to the crude benchmark change. The Atrush co-venturers are in the process of negotiating a similar lifting agreement with the KRG, expected to be signed during 2023 but with an effective date of 1 September 2022. During 2022, the Company announced the commissioning of Sarsang's 25,000 bopd production facility and the commencement of export via pipeline for oil produced from that facility. The debottlenecking and optimization of the Sarsang production facility is expected to continue during 2023.

FINANCIAL REVIEW

Financial Results

Selected Quarterly Financial Information

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

USD Thousands (except per share data)	Q4 2022	Q3 2022	Q2 2022	Q1 2022	Q4 2021	Q3 2021	Q2 2021	Q1 2021
Continuing operations:								
Revenue	**53,173**	39,812	44,844	38,836	27,439	29,070	25,208	20,606
Cost of goods sold	**(37,979)**	(10,952)	(10,636)	(11,157)	(14,777)	(17,050)	(10,255)	(10,352)
Net Gain on Sarsang Acquisition	**9,229**	50,852	-	-	-	-	-	-
General and admin expense	**(3,682)**	(2,275)	(2,359)	(1,593)	(2,645)	(1,844)	(1,804)	(1,543)
Share based payments	**(549)**	(212)	(176)	(1,401)	(295)	(198)	(469)	(665)
Depreciation and amortization	**(54)**	(55)	(55)	(54)	(51)	(56)	(55)	(57)
Credit loss provision	**127**	(1,492)	(1,897)	(611)	2,038	-	-	-
Finance cost	**(9,686)**	(11,809)	(8,972)	(9,060)	(7,638)	(9,904)	(6,054)	(6,167)
Finance income	**1,848**	2,601	435	139	26	9	276	669
Income tax expense	**(80)**	(42)	(14)	(19)	(36)	(8)	(13)	(22)
Net income	**12,347**	**66,428**	**21,170**	**15,080**	**4,061**	**19**	**6,834**	**2,469**
EBITDAX	**39,624**	32,626	37,339	30,471	18,456	16,017	18,402	13,500
Net income in $ per share								
- Basic	**0.045**	0.024	0.009	0.007	0.002	-	0.003	0.001
- Diluted	**0.043**	0.024	0.009	0.007	0.002	-	0.003	0.001

EBITDAX[9] 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 $12 million net income generated in Q4 2022 was primarily driven by the newly acquired Sarsang asset contributing for the full quarter to the gross margin on oil sales plus an additional $9 million of bargain purchase gain on the Sarsang Acquisition due to a remeasurement of the purchase price allocation based on new information received during the quarter on the fair value of identified liabilities. For further details please refer to the section below "Net gain on Sarsang Acquisition". These additions in income were partly offset by the increase in the depletion charge, further explained under "Depletion costs" in the "Gross margin on oil sales" section. The income and expenses in the fourth quarter are explained in more detail in the following sections.

[9] 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, 2022	2021	2020
Revenues	**176,665**	102,323	56,673
Cost of goods sold	**(70,724)**	(52,434)	(49,567)
Bargain purchase gain on acquisition	**60,081**	-	-
General and administrative expense	**(9,909)**	(7,836)	(8,181)
Share based payments expense	**(2,338)**	(1,627)	(1,663)
Depreciation and amortisation expense	**(218)**	(219)	(205)
Impairment	**-**	-	(116,164)
Credit loss provision	**(3,873)**	2,038	(3,201)
Finance income	**4,909**	844	5
Finance cost	**(39,479)**	(29,627)	(22,076)
Income tax expense	**(155)**	(79)	(46)
Income/(loss) for the year	**114,959**	**13,383**	**(144,425)**
Basic and diluted income/(loss) in $ per share:	**0.04**	0.01	(0.07)

Financial position – net book value of principal items	As at December 31, 2022	2021	2020
Property plant & equipment	**302,384**	138,971	146,046
Loans and receivables	**88,279**	48,249	68,069
Exploration and evaluation assets	**15**	37	70
Cash and other assets	**107,819**	181,151	28,989
Right of use asset	**196**	57	199
Total assets	**498,693**	**368,465**	**243,373**
Net borrowings	**(258,943)**	(280,999)	(188,416)
Other liabilities	**(76,056)**	(68,928)	(51,290)
Shareholders' equity	**163,694**	**18,538**	**3,667**
Common shares outstanding (x 1,000)	**2,808,851**	2,215,350	2,173,365

Summary of Principal Changes in Annual Financial Information

The net income in 2022 of $114.96 million is attributable to a number of key drivers:

- Oil sales at a significantly higher average annual oil price;
- Contribution from the newly acquired Sarsang asset at the end of Q3 increased the gross margin;
- The Sarsang acquisition resulted in a significant bargain purchase gain in the 2022 results (For further details please refer to the section below "Net gain on Sarsang Acquisition") ;
- Finance costs increased in the year, due to the new 2025 Bonds; however, finance income also increased due to interest received on cash deposits and interest payments from the Company bonds purchased; and
- The offset of additional depletion costs mainly due to the year end reserves report.

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

EBITDAX - Non-IFRS Measures

The Company generated a strong $39.6 million of EBITDAX in Q4 2022, as shown in the following table, continuing to underline the profitability of the Company in the current oil price environment.

	Three months ended Dec 31		Year ended Dec31	
USD Thousands	**2022**	**2021**	**2022**	**2021**
Revenues	53,173	27,439	176,665	102,323
Lifting costs	(9,242)	(6,025)	(24,150)	(19,893)
Other costs of production	(76)	(18)	(208)	(6,592)
General and administrative expense	(3,682)	(2,645)	(9,909)	(7,836)
Share based payments	(549)	(295)	(2,338)	(1,627)
EBITDAX	**39,624**	**18,456**	**140,060**	**66,375**

Gross margin on oil sales

	Three months ended Dec 31		Year ended Dec31	
USD Thousands	**2022**	**2021**	**2022**	**2021**
Revenue from oil sales	53,173	27,439	176,665	102,323
Lifting costs	(9,242)	(6,025)	(24,150)	(19,893)
Other costs of production	(76)	(18)	(208)	(6,592)
Depletion costs	(28,661)	(8,734)	(46,366)	(25,949)
Cost of goods sold	**(37,979)**	**(14,777)**	**(70,724)**	**(52,434)**
Gross margin on oil sales	**15,194**	**12,662**	**105,941**	**49,889**

Revenue from oil sales relates to the Company's entitlement share of oil sales from the Atrush and Sarsang Blocks (Sarsang sales are included from September 15, 2022). The increase in revenues in 2022 compared to 2021 was mainly driven by the inclusion of Sarsang production plus higher average net oil prices. Overall, 2022 production was sold at an average net oil price of $79.14 per barrel after deducting the discount for oil quality and transportation costs which compares to $54.75 for oil sales made in 2021. As stated above, revenue for both Atrush and Sarsang is based on KBT pricing from September 1, 2022, reflective of the terms of new lifting agreements proposed by the KRG for both assets. The higher oil prices resulted in increased revenues in the year of $54 million and the higher production increased revenues by $20 million, compared to the previous year.

Lifting costs are comprised of the Company's share of expenses related to the production of oil from the Atrush and Sarsang Blocks including operation and maintenance of wells and production facilities, insurance and the respective Operator's related support costs as charged to the Company. Lifting costs in the quarter are significantly higher in 2022 compared due 2021 due to a full quarter of Sarsang lifting costs. For the full year 2022 the average lifting cost per barrel of oil produced was $5.47 per barrel (2021: $5.12 per barrel). The increase per barrel related mainly to higher diesel prices in the year 2022.

Other costs of production include the Company's share of production bonuses and other costs prescribed under the Atrush and Sarsang PSCs. These costs have remained low in 2022, during the year 2021 $6.44 million was included for the Company's share of the Atrush production bonus.

Depletion costs have significantly increased due to the impact of including depletion of the Sarsang asset and also due to the impact of the recent year end reserves report. The results of the report have increased the rate of depletion and also increased the estimated future development costs of production.

Gross margin on oil sales was significantly higher in the quarter and full year of 2022 mainly due to the inclusion of Sarsang from September 15, 2022, and the higher oil prices as detailed above.

Net gain on Sarsang Acquisition

On September 14, 2022, the Company announced the closing of the Sarsang Acquisition. The Company purchased TEPKRI Sarsang A/S, now ShaMaran Sarsang A/S, which holds an 18% non-operated participating interest (22.5% paying interest) in the Sarsang PSC in Kurdistan. The Sarsang Acquisition has an effective date of January 1, 2021. Details of the purchase consideration, the net assets acquired and bargain purchase gain are as follows:

Purchase consideration:

Cash paid [1]	142,096
Deferred payment [2]	22,918
Contingent consideration[2]	10,950
Total purchase consideration	**175,964**

[1] The cash paid represents an upfront payment of $135 million plus $7.096 million of working capital adjustments on closing.

[2] The deferred payment and contingent consideration amounts mainly represent the $20 million convertible promissory note issued to the seller at closing and a potential additional contingent consideration of $15 million. The convertible promissory note was originally negotiated as a 12-month maturity note but was later issued to the seller with a 1-month maturity from the date of closing; at the date of this MD&A, this note plus interest have been paid in full. The contingent consideration is payable to the seller upon (i) cumulative gross oil production from the Sarsang PSC reaching 130 MMbbls, and (ii) subject to Brent crude oil prices averaging at least $60/bbl for the preceding twelve-month period. The Company has estimated the fair value at the date of the acquisition as $10.95 million; since the acquisition date and balance sheet date, this contingent consideration has been revalued to $10.85 million. The difference of $0.1 million has been treated as a finance cost.

The assets and liabilities recognized as a result of the acquisition are as follows:

	Fair Value
Property, plant and equipment [5]	178,487
Accounts receivables on oil sales [6]	34,420
Cash	31,659
Payables to joint operating partner	(786)
Provision for decommissioning and site restoration [7]	(7,735)
Net identifiable assets acquired	**236,045**
Less: bargain purchase gain [4]	(60,081)
Net assets acquired	**175,964**

[4] The bargain purchase gain is due to the Sarsang Acquisition having an effective date of January 1, 2021, and the purchase price agreed on signing the agreement of July 12, 2021. The acquisition closed September 14, 2022; during which time the Brent price of oil increased.

[5] The fair value of the property, plant and equipment acquired is based on the Company's share of the Sarsang PSC proved and probable reserves as estimated by the Company's independent qualified reserves evaluator, McDaniel. The estimate takes into account the production until closing of the acquisition, a prudent average Brent oil price of $60 per barrel, the impact of the new lifting agreement and has been discounted at 17%.

[6] The fair value of acquired trade receivables is $34.420 million. The gross contractual amount for trade receivables is $36.586 million, with a loss allowance of $2.166 million recognized on acquisition.

[7] The fair value of the provision for decommissioning and site restoration was based on the estimated future cash flows to retire the acquired portion of the oil and gas property at the end of its useful life. The discount rate used to determine the net present value of the provision was a rate of 3.09 percent (the Bank of Canada's long-term bond yield rate).

Up to twelve months from the closing date of the acquisition, further adjustments may be made to the fair values assigned to the identifiable assets acquired and liabilities assumed, as well as to the fair value of the consideration transferred.

General and administrative expense

USD Thousands	Three months ended Dec 31 2022	Three months ended Dec 31 2021	Year ended Dec31 2022	Year ended Dec31 2021
Salaries and benefits	2,592	1,935	5,072	3,896
General and other office expenses	313	214	844	675
Management and consulting fees	295	247	1,965	1,292
Legal, accounting and audit fees	276	107	966	1,510
Travel expenses	125	73	408	130
Listing costs and investor relations	40	69	413	333
Corporate Sponsorship	41	-	241	-
General and administrative expense	**3,682**	**2,645**	**9,909**	**7,836**

The increase in general and administrative expenses in the fourth quarter and twelve months of 2022 compared to 2021 is mainly due to an increase in headcount, the Hasar corporate sponsorship, one-off business development management and consulting fees incurred in 2022 and an increase in travel expenses as business travel returns to pre-pandemic levels.

Share based payments expense

USD Thousands	Three months ended Dec 31 2022	Three months ended Dec 31 2021	Year ended Dec31 2022	Year ended Dec31 2021
Option expense	279	112	1,039	653
RSU expense	154	134	951	541
DSU (recovery)/expense	116	49	348	433
Total share-based payments	**549**	**295**	**2,338**	**1,627**

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, 2022 there was in total 82,740,000 outstanding stock options (December 31, 2021: 61,990,000), 22,123,339 RSUs (December 31, 2021: 22,103,334) granted to certain senior officers and other eligible persons of the Company and 11,814,611 DSUs (December 31, 2021: 12,406,477) granted to ShaMaran's non-executive directors. DSUs are revalued each quarter end resulting in an increase or decrease to their valuation depending on the share price. Also refer to the discussion under the "Outstanding share data, share units and stock options" section below.

Depreciation and amortization expense

USD Thousands	Three months ended Dec 31 2022	Three months ended Dec 31 2021	Year ended Dec31 2022	Year ended Dec31 2021
Depreciation and amortization expense	54	51	218	219

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.

Finance income

USD Thousands	Three months ended Dec 31 2022	Three months ended Dec 31 2021	Year ended Dec31 2022	Year ended Dec31 2021
Interest on deposits	1,848	26	3,771	40
Net gain from settlement of debt	-	-	1,138	792
Total interest income	**1,848**	**26**	**4,909**	**832**
Foreign exchange gain	-	-	-	12
Total finance income	**1,848**	**26**	**4,909**	**844**

Interest on deposits in the year 2022 includes $1.4 million of interest (2021: nil) from the $30.7 million of the Company bonds that were purchased but not retired.

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 bond terms.

Finance cost

USD Thousands	Three months ended Dec 31 2022	Three months ended Dec 31 2021	Year ended Dec31 2022	Year ended Dec31 2021
Interest /amortization charges on bonds	9,885	8,635	35,544	27,419
Re-measurement of bond debt and Nemesia loan	-	-	2,465	-
Amortization of 2023 bond transaction costs	-	299	1,223	771
Amortization of the related party loan	557	669	2,662	2,534
Call premiums	-	(1,672)	-	-
Total borrowing costs	**10,442**	**7,931**	**41,894**	**30,724**
Lease – interest expense	1	6	13	21
Foreign exchange loss	114	70	66	-
Interest expenses	-	80	35	80
Re-measurement of contingent consideration	(101)	-	(101)	-
Unwinding discount on decommissioning provision	(138)	(285)	(964)	(690)
Total finance costs before borrowing costs capitalized	**10,318**	**7,817**	**40,943**	**30,150**
Borrowing costs capitalized	(632)	(179)	(1,464)	(523)
Finance cost	**9,686**	**7,638**	**39,479**	**29,627**

Interest and amortization charges include interest on the initial issue amount of $111.5 million of the 2025 bond issued on July 30, 2021. From September 27, 2022, these costs represent the amortization of the full $300 million 2025 bond related transaction costs and interest.

Re-measurement of bond debt and Nemesia loan relates to the accounting for the de-recognition of the 2023 bonds and loan prior to September 27, 2022.

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

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

Income tax expense

USD Thousands	Three months ended Dec 31 2022	Three months ended Dec 31 2021	Year ended Dec31 2022	Year ended Dec31 2021
Income tax expense	80	36	155	79

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

Capital Expenditures

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

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

	Year ended December 31, 2022			Year ended December 31, 2021		
USD Thousands	Oil and gas assets	Office equipment	Total	Oil and gas assets	Office equipment	Total
Opening net book value	**138,804**	**167**	**138,971**	**145,875**	**171**	**146,046**
Additions	31,291	67	31,358	18,878	59	18,937
Sarsang Acquisition	178,487	-	178,487	-	-	-
Depletion and depreciation expense	(46,365)	(67)	(46,432)	(25,949)	(63)	(26,012)
Net book value	**302,217**	**167**	**302,384**	**138,804**	**167**	**138,971**

The net book value of property, plant and equipment ("PP&E") is principally comprised of development costs related to the Company's share of the Atrush PSC and the fair value of the Company's share of the Sarsang PSC proved and probable reserves as estimated by the Company's independent qualified reserves evaluator, McDaniel. During the year 2022, movements in PP&E were comprised of the Sarsang Acquisition of $178.5 million, general additions of $31.4 million (2021 full year: $18.9 million), which included capitalized borrowing costs of $1.5 million (2021 full year: $523 thousand), net of depletion and depletion of $46.4 million (2021 full year: $26.0 million) which resulted in a net increase to PP&E assets of $163.4 million.

Financial Position and Liquidity

Loans and receivables

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

USD Thousands	For the year ended December 31 2022	For the year ended December 31 2021
Accounts receivable on oil sales	95,481	40,599
Atrush Exploration Costs receivable	-	8,813
Credit Loss Provision	(3,507)	(1,163)
Credit Loss Provision – transportation costs	(3,695)	-
Total loans and receivables	**88,279**	**48,249**

The $95.5 million of accounts receivable on oil sales at December 31, 2022, relates to deliveries from August 2022 through December 2022. At the date of this MD&A, the Company had received a total of $21.3 million in payments relating to the receivable's balances outstanding at December 31, 2022. There are some uncertainties regarding the timing of the payment of the current accounts receivables on oil sales. The Company (together with other International Oil Companies) remains in discussions with the KRG about the appropriate recovery mechanism for these receivables, however in line with precedents full recovery is expected.

The Atrush Exploration Costs receivable was fully repaid during 2022.

A provision has been made to account for a possible increase in transportation and access fees of $3.7 million (2021: $nil). According to the KRG these costs were added as a result of increased pipeline costs and other tariffs; this increase has yet to be agreed between the parties.

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

Borrowings

The ShaMaran bond issued in 2018 carried a 12% fixed semi-annual coupon and was due to mature on July 5, 2023 (the "2023 Bond"). The Company fulfilled an obligation under the 2023 Bond Terms to make the amortization payment of $15 million by December 2021, reducing the outstanding principal amount of the 2023 Bond to $175 million.

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 shall be partially amortized in instalments with $22.5 million due every 6 months from July 2023 and the remaining balance due at maturity. The 2025 Bond was issued at a price of 98.5% of nominal value which was applicable to both new money under the Initial Issue Amount of $111.5 million in July 2021 and the refinancing of $175 million of existing debt in September 2022. Following the closing of the Sarsang Acquisition, the Company announced on September 27, 2022, that the Company's 2023 Bond was exchanged for its 2025 Bond at 2% premium, in accordance with the 2025 Bond Terms, and that accrued interest was paid in full at September 26, 2022 to all bondholders.

The existing debt that was refinanced into the new bond included $7.2 million of the total $22.8 million debt owed by the Company to Nemesia S.à.r.l. ("Nemesia") with the $15.6 million balance remaining on amended terms. Refer to "Loan from related party" for further detail.

During 2021 and 2022, the Company purchased its own Bonds in the market at commercially attractive rates. At December 31, 2022, the Company held $30.7 million of its own 2025 Bond (2021: $3 million). These Bonds have not been retired.

The possible exercise of a put option and the breach of a financial covenant, as per the 2023 Bond, are not applicable to the 2025 Bond. Therefore, all the borrowings are now classified as non-current at December 31, 2022, except for the first amortization payment of $22.5 million due July 2023 and accrued interests for $10.2 million.

At December 31, 2022, $36.4 million of restricted cash is held in a Debt Service Retention Account ("DSRA") to cover the interest relating to the 2025 bond. As per the Bond Terms, this amount represents a full year of interest payments and as required has been increased to $58.5 million in January 2023 to fully cover the next scheduled amortization amount of $22.5 million due in July 2023.

The movements in borrowings are explained as follows:

	For the year ended December 31	
USD Thousands	2022	2021
Opening balance	**296,839**	**199,561**
2025 bond issued	188,528	111,472
Interest/amortization charges	35,544	27,419
Amortization of bond transaction costs	2,486	771
2025 bond discount	(4,092)	-
2025 bond transaction costs	(6,261)	(1,672)
Bond purchases	(27,717)	(2,988)
Payments to 2023 bondholders – interest	(41,182)	(22,724)
2023 bond amount retired	(175,000)	(15,000)
Ending balance	**269,145**	**296,839**
Non-current portion: borrowings	236,443	-
Current portion: borrowings	22,500	280,999
Current portion: accrued bond interest expense	10,202	15,840

Loan from related party

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

In accordance with IFRS 9 Financial Instruments the liquidity guarantee was a compound financial instrument which had two parts: a liability component and an equity component. The fair value of the liability component was presented on the balance sheet as "loan from related party". The fair value of the equity was presented on the balance sheet as "Loan Share reserve". As Nemesia was issued the Company shares each month the Loan Share reserve value was transferred into share capital on a straight-line basis. During 2022 $1,297 thousand (full year 2021: $1,573 thousand) had been transferred into share capital.

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

Following the changes, the Nemesia loan accounting was changed accordingly. The liability component has been split into the part which was converted to the 2025 Bond and the part to be carried forward into the new loan, the difference between the values is the re-measurement of debt. The equity component no longer exists from September 27, 2022, with the final share issue occurring in October 2022. The remaining $1.2 million has been expensed to retained earnings.

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

USD Thousands	For the year ended December 31 2022	2021
Opening balance	**21,748**	**19,215**
Recognize Nemesia loan on new terms	15,600	-
Amortization	2,662	2,533
Derecognize Nemesia loan on old terms	(23,835)	-
Ending balance	**16,175**	**21,748**

Liquidity and Capital Resources

USD Thousands	For the year ended December 31 **2022**	**2021**
Selected liquidity indicators		
Cash flow from operations	105,282	63,903
Positive / (negative) working capital	147,882	(78,137)
Cash in bank	105,730	171,666

Cash flow from operations of $105.3 million for the year ended December 31, 2022 is up by $41.4 million from $63.9 million reported in the same period of 2021 principally due to higher oil sales and increased realized pricing in the year 2022.

Working capital at December 31, 2022, was positive $147.9 million compared to negative $78.1 million at December 31, 2021. The increase in working capital since December 31, 2021 is principally due to the Company's bonds now being classified as a non-current liability after the closing of the Sarsang Acquisition.

The overall **cash** position of the Company decreased by $66.0 million in 2022, as compared to an increase of $143.2 million during the same period of 2021. The main components of the movement in funds were as follows:

- The operating activities of the Company in 2022 resulted in an increase of $105.3 million in the cash position (2021: increase of $63.9 million). The change in cash from operations is explained by the higher revenues/gross margin from oil sales, including the inclusion of Sarsang.
- Net cash out to investing activities in 2022 were $123.7 million (2021: cash inflows from of $9.7 million). Cash out to investing activities were comprised of $110.4 million of Sarsang Acquisition payments, $25.8 million for investments in the Atrush and Sarsang Block development work program net of cash inflows of $8.8 million in payments by the KRG of Atrush loans and $3.8 million interest received.
- Net cash outflows to financing activities in 2022 were $47.5 million (2021: cash inflows from 69.8 million) and comprised of $27.5 million of purchases of ShaMaran Bonds, $41.2 million of interest payments to ShaMaran bondholders in 2022, $6.3 million of 2025 Bond transaction costs offset by the net proceeds from the rights offering of $27.5 million.

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	
	2022	2021	2022	2021
Nemesia	2,435	2,709	568	1,830
Namdo Management Services Ltd	32	34	-	-
Total	**2,467**	**2,743**	**568**	**1,830**

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

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

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

Outstanding Share Data, Share Units and Stock options

Common shares

The Company had 2,808,850,904 outstanding shares at December 31, 2022 (2,925,528,854 shares fully diluted for RSU, DSU and outstanding options) and 2,817,657,899 outstanding shares at the date of this MD&A.

Details of share issuance in 2022 and since December 31, 2022 are as follows:

- 22,572,000 common shares were issued to Nemesia up to the date of this MD&A, in accordance with the loan repayment terms between the Company and Nemesia. The loan has been amended and has new repayment terms from September 27, 2022, the monthly common share allotment has been eliminated. See "Transactions with Related Parties".
- 12,686,827 Restricted Share Units ("RSUs") vested in 2022, and a further 8,249,995 RSUs vested in March 2023, in accordance with the Company's Share Unit Plan and were issued to grantees. The carrying value of the RSU Shares has been determined based on the Company's average closing share price over the 5-day period prior to the vesting date.
- 1,566,832 Deferred Share Units ("DSUs") were exercised in accordance with the Company's plan and issued to a grantee.
- 558,242,414 common shares were issued on May 25, 2022, in connection with the rights offering to shareholders of record on April 13, 2022 to purchase additional common shares in the Company.

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, 2022, a total of 116,677,950 shares, 4% of issued share capital, had been granted of the possible 280,885,090 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, 2022 and the date of this MD&A there are no PSUs outstanding. A deferred share unit ("DSU") plan exists for non-executive directors of the Company.

In the year 2022, the Company granted:

(i) 10,890,000 RSUs to certain senior officers and other eligible persons of the Company at a grant date share price of CAD 0.10. In 2022 a total of 10,869,995 RSUs vested, and the same quantity of shares were issued to plan participants. The Statement of Comprehensive Income includes RSU related charges of $951 thousand (2021: $540 thousand) for the year 2022.

(ii) 2,287,620 DSUs to non-executive directors have been granted and 2,879,486 have been exercised. The Statement of Comprehensive Income includes DSU related charges of $348 thousand for the twelve months of (2021: $433 thousand). The carrying amount of the DSU liability at December 31, 2022 is $785 thousand.

(iii) 20,750,000 stock options to certain senior officers and other eligible persons of the Company at a strike price of CAD 0.10. The Statement of Comprehensive Income includes option related charges of $1,039 thousand (2021: $654 thousand) for 2022.

At December 31, 2022 there were 82,740,000 stock options outstanding under the Company's employee incentive stock option plan, which represents 2.8% of the total shares outstanding at December 31,2022. No stock options were exercised in 2022 (year 2021: nil).

The Company has no warrants outstanding.

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

	Number of share options outstanding	Number of RSUs outstanding	Number of DSUs outstanding
At December 31, 2021	**61,990,000**	**22,103,334**	**12,406,477**
Granted in the period	20,750,000	10,890,000	2,287,620
Expired/cancelled in the period	-	-	(2,879,486)
RSU Shares issued in the period	-	(10,869,995)	-
At December 31, 2022	**82,740,000**	**22,123,339**	**11,814,611**
Quantities vested and unexercised:			
At December 31, 2021	43,069,995	-	12,406,477
At December 31, 2022	63,939,995	-	11,814,611

Contractual Obligations and Commitments

Production Sharing Contracts

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

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

	For the year ended December 31,				
USD Thousands	2023	2024	2025	Thereafter	**Total**
Atrush and Sarsang Block developments	104,104	166	166	1,158	**105,594**
Sarsang contingent consideration				15,000	**15,000**
Corporate office and other	140	54	-	-	**194**
Total commitments	**104,244**	**220**	**166**	**16,158**	**120,788**

Amounts relating to Atrush and Sarsang Block developments represent the Company's unfunded paying interest share of the proposed 2023 work program and other obligations under the PSC's.

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, 2022 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, 2023, 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 depletion and depreciation that would have been charged since the impairment.

In 2022 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, 2022. 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, 2022 were, based on the Company's working interest of 27.6 % in the Atrush Block and 18% working interest in the Sarsang Block, estimated to be as follows:

Company estimated reserves (diluted)
As at December 31, 2022

	Proved Developed	Proved Undeveloped	**Total Proved**	Probable	**Total Proved & Probable**	Possible	**Total Proved, Probable & Possible**
			Light/Medium Oil (Mbbl)[1]				
Gross [2]	23,831	10,575	**34,407**	26,485	**60,891**	43,033	**103,924**
Net [3]	12,073	4,209	**16,282**	7,590	**23,872**	9,345	**33,217**
			Heavy Oil (Mbbl) [1]				
Gross [2]	2,913	1,523	**4,436**	3,009	**7,445**	3,932	**11,377**
Net [3]	1,568	626	**2,194**	952	**3,146**	1,353	**4,499**

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 in the Atrush Block plus an 18.0% working interest share of the property gross reserves in the Sarsang Block.
(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, 2022, were estimated to be as follows:

Company estimated contingent resources (diluted) (1) (2)(4)(5)
As at December 31, 2022

	Low Estimate (1C)	Best Estimate (2C)	High Estimate (3C)	Risked Best Estimate
Light/Medium Oil (Mbbl) (3)				
Gross (Development On Hold)	2,799	9,486	36,895	6,640
Gross (Development Not Viable)	0	0	0	0
Heavy Oil (Mbbl) (3)				
Gross (Development On Hold)	3,364	6,263	20,932	4,384
Gross (Development Not Viable)	11,633	25,793	33,339	2,579
Gross Total	17,797	41,542	91,166	13,603

Notes:
(1) Company gross interest resources are based on a 27.6 % working interest share of the property gross resources in the Atrush Block plus an 18.0% working interest of the property gross resources in the Sarsang Block.
(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 respective Operator; and risks associated with international operations.

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

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

FINANCIAL INSTRUMENTS

The Company's financial instruments currently consist of cash, cash equivalents, advances to joint operations, other receivables, borrowings, related party loan, accounts payable and accrued expenses, accrued interest on bonds, provisions for decommissioning costs, and current tax liabilities. The Company classifies its financial assets and liabilities at initial recognition in the following categories:

- Financial Assets at Amortized Cost – Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest. This includes the Company's loans and receivables which consist of fixed or determined cash flows related solely to principal and interest amounts or contractual sales of oil. The Company's intent is to hold these receivables until cash flows are collected. Financial assets at amortized cost are recognized initially at fair value, net of any transaction costs incurred and subsequently measured at amortized cost using the effective interest method. The Company recognizes a loss allowance for any expected credit losses on a financial asset that is measured at amortized cost.
- Financial Assets at Fair Value through Profit or Loss ("FVTPL") – Financial assets measured at FVTPL are assets which do not qualify as financial assets at amortized cost or at fair value through other comprehensive income. The Company does not currently have any financial assets measured at FVTPL.
- Financial Liabilities at Amortized Cost – Financial liabilities are measured at amortized cost using the effective interest method, unless they are required to be measured at FVTPL, or the Company has opted to measure them at FVTPL. Borrowings and accounts payable are recognized initially at fair value, net of any transaction costs incurred, and subsequently at amortized cost using the effective interest method.
- Financial Liabilities at FVTPL – Financial liabilities measured at FVTPL are liabilities which include embedded derivatives and cannot be classified as amortized cost. The Company does not currently have any financial liabilities measured at FVTPL.

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

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

Financial Risk Management Objectives

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

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

Commodity price risk is a risk as the prices that the Company receives for its oil production may have a significant impact on the Company's revenues and cash flows provided by operations. World prices for oil and gas are characterized by significant fluctuations that are determined by the global balance of supply and demand and worldwide political developments and in particular the price received for the Company's oil production in Kurdistan is dependent upon the KRG as the sole buyer of the oil production from both Atrush and Sarsang Blocks and its ability to export and sell production outside of Iraq. Recently the KRG asked that the reference price in the lifting agreements for all Kurdistan producing fields be changed to KBT, the Kurdish blend sold at Ceyhan Turkey, instead of Dated Brent. The partners in the Atrush JV are considering this request, whereas the partners in the Sarsang JV have signed an amended lifting agreement effective from September 1, 2022 reflecting, among other items, principally this change in requested pricing reference. A decline in the price of KBT or Dated Brent, the references in determining the price at which the Company can sell future oil production, could adversely affect the amount of funds available for capital reinvestment purposes as well as the Company's value in use calculations for impairment test purposes.

The Company does not hedge against commodity price risk.

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

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

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

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

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

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

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

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

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

RISK AND UNCERTAINTIES

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

Federal Supreme Court of Iraq Ruling

In February 2022, the Federal Supreme Court of Iraq ruled that the Kurdistan Region's 2007 Oil and Gas Law is unconstitutional. The ruling also instructed the Ministry of Oil of Iraq ("MoO") to take steps to implement the court's decision and certain actions were launched in the Karkah Commercial Court in Baghdad. Neither the Company nor any of its subsidiaries has by the date of this MD&A been served any court documentation regarding these actions by the MoO. Dialogue between the KRG and the MoO on this issue and the court case in particular has commenced and is continuing. It is noted that all Kurdistan PSCs are governed by English law and dispute/enforcement actions (if any) are mandated as per Kurdistan PSC terms to be conducted in London under London International Court of Arbitration rules. At the date of this MD&A, this court's actions have not impacted any of the Company's operations and the Company is continuing to monitor the situation closely.

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

Russia-Ukraine conflict

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

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 2021 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.

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 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 that public reports indicate that discussions are on-going between the KRG and Federal Government to agree terms to a new Federal Petroleum Law that could have an impact on the Company's existing PSCs in Atrush and Sarsang Blocks. It is also noted that various public reports have been made that discussions on a new Federal Petroleum Law are underway as at the date of the MD&A that could have an effect on all Kurdistan PSCs including the Atrush and Sarsang PSCs to which the Company is a party.

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 and Sarsang PSCs 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 and Sarsang 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 and Sarsang oil and receive full payment for all deliveries of Atrush and Sarsang oil.

Payments to IOCs for oil deliveries to the KRG for export have not been consistent. There remains a risk that the Company may face significant continued 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. There is a risk that the Non-Government Contractors in Atrush may be exposed to funding the KRG 25% share of future Atrush costs.

Default under the Atrush/Sarsang PSCs and JOAs if the Company fails to meet its obligations under the Atrush/Sarsang PSC and/or Atrush/Sarsang Block joint operating agreement ("Atrush JOA", "Sarsang 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 or Sarsang 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 or Sarsang 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 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, ShaMaran Sarsang A/S 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 relevant PSC and potential termination of ShaMaran's interest in 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/Sarsang Operator and the KRG in accordance with the terms of the Atrush/Sarsang PSC, Atrush/Sarsang 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/Sarsang operations or their associated costs and this could adversely affect ShaMaran's financial performance. If the 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 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/Sarsang operations and ultimately result in significant losses to the Company. In 2022, and to the date of this MD&A, there have been no significant security incidents in the Atrush Block and Sarsang 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 Blocks, 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 joint venture's, the 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 and Sarsang 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 and Sarsang PSC which provide the KRG the right to conduct an audit to verify the validity of incurred petroleum costs which the Operator has reported to the KRG and is therefore entitled under the terms of the PSC to recover through cash payments from future petroleum production. No such audit has yet taken place regarding the Atrush and Sarsang 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 and Sarsang 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 operations and may delay and or increase the cost of the 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 as they come due in the foreseeable future. There are some uncertainties regarding the timing of the payment of the current accounts receivables on oil sales. The Company (together with other International Oil Companies) remains in discussions with the KRG about the appropriate recovery mechanism for these receivables, however in line with precedents full recovery is expected. The Company has forecasted to have sufficient cash in the next 12 months to fund the Company's costs.

Substantial capital requirements in the future for the development and production of oil and gas in Atrush Block and Sarsang 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, Denmark, 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 Bond

Possible termination of Atrush/Sarsang PSC / bond agreement 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/Sarsang PSC and/or Atrush/Sarsang 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/Sarsang PSC and/or Atrush/Sarsang 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. 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 and the Chief Financial 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, 2022, 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.

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, 2022 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 2021 Annual Information Form, is available on SEDAR at www.sedar.com and on the Company's web-site at www.shamaranpetroleum.com.

The Annual Information Form for the year ended December 31, 2022 will be available on the Company's website under the Company's profile no later than June 30, 2023.

The Company plans to publish on or about May 10, 2023 its financial statements for the three months ending March 31, 2023.

OTHER SUPPLEMENTARY INFORMATION

Abbreviations

CAD	Canadian dollar
CHF	Swiss Franc
EUR	Euro
USD	US dollar

Oil related terms and measurements

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

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, 2022 and 2021, 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 statements of comprehensive income for the years ended December 31, 2022 and 2021;
- the consolidated balance sheets as at December 31, 2022 and 2021;
- the consolidated statements of cash flows for the years then ended;
- the consolidated statements of changes in equity 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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Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2022. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Impact of oil and gas reserves on net property, plant and equipment (PP&E) *Refer to note 1 – General information, note 4 –Critical accounting judgments and key sources of estimation uncertainty and Note 13 – Property, plant and equipment.* The Company had $302.2 million of net PP&E in the Atrush and Sarsang blocks as at December 31, 2022. Depletion expense for these assets was $46.4 million for the year then ended. PP&E is depleted using the unit-of-production method over the estimated remaining life of proved and probable reserves. PP&E assets are grouped for recoverability assessment purposes into cash generating units (CGU). At each reporting period or when facts and circumstances suggest that the carrying amount may exceed its recoverable amount, management assesses its CGUs for indicators of impairment that suggest the carrying amount may exceed its recoverable amount. Where such indicators are identified, management determines the recoverable amount. Impairment is identified by comparing the recoverable amount of the CGU to its carrying amount. Management used fair value less cost of disposal to determine the recoverable amount of the Atrush and Sarsang CGUs, which is based on the discounted after-tax cash flows of proved and probable oil and gas reserves. The proved and probable oil and gas reserves are estimated by the Company's independent petroleum engineers (management's experts). Significant assumptions used by management used to determine the recoverable amount of the CGU	Our approach to addressing the matter included the following procedures, among others: • The work of management's experts was used in performing the procedures to evaluate the reasonableness of the proved and probable oil and gas reserves used to determine depletion expense and the recoverable amount of PP&E in the Atrush and Sarsang CGUs. As a basis for using this work, the competence, capabilities and objectivity of management's experts was evaluated, the work performed was understood and the appropriateness of the work as audit evidence was evaluated. The procedures performed also included evaluation of the methods and assumptions used by management's experts, tests of the data used by management's experts and an evaluation of their findings. • Tested how management determined the recoverable amount of the Atrush and Sarsang CGUs and depletion expense, which included the following: ▪ Evaluated the appropriateness of the methods used by management in making these estimates. ▪ Tested the data used in determining these estimates. ▪ Evaluated the reasonableness of significant assumptions used by management in developing the underlying estimates, including:

Key audit matter	How our audit addressed the key audit matter
include the proved and probable oil and gas reserves, future production, forecasts of oil and gas prices, future development costs, future production costs and the discount rate. We determined that this is a key audit matter due to (i) the significant judgment by management, including the use of management's experts, when developing the expected future cash flows to determine the recoverable amount and the proved and probable oil and gas reserves; (ii) a high degree of auditor judgment, subjectivity and effort in performing procedures relating to the significant assumptions; and (iii) the audit effort that involved the use of professionals with specialized skill and knowledge in the field of valuation.	○ Future production, future development costs and future production costs by considering the past performance of the Atrush and Sarsang CGUs, and whether these assumptions were consistent with evidence obtained in other areas of the audit. ○ Forecasts of oil and gas prices by comparing those forecasts with other reputable third-party industry forecasts. ○ The discount rate, through the assistance of professionals with specialized skill and knowledge in the field of valuation. • Recalculated the unit-of-production rates used to calculate depletion expense for the Atrush and Sarsang CGUs.
Valuation of property, plant and equipment ("PP&E") assets acquired in the Sarsang acquisition *Refer to note 1 – General information, note 4 –Critical accounting judgments and key sources of estimation uncertainty and Note 6 – Sarsang Acquisition* On September 14, 2022, the Company acquired all of the outstanding shares of TEPKRI Sarsang A/S, for total consideration of $176 million. This transaction was accounted for under the acquisition method, which requires that the identifiable assets acquired and liabilities assumed be measured at their fair values at the acquisition date. The identifiable assets acquired included $178.5 million of PP&E assets. Management determined this fair value based on a fair value less cost of disposal methodology, calculating the present value of the expected future after-tax cash flows derived from the acquired oil and gas reserves. The assumptions and estimates used to determine the acquired oil and gas reserves and the fair values	Our approach to addressing the matter included the following procedures, among others: • Tested how management estimated the fair value of the property, plant and equipment assets, which included the following: ▪ Read the purchase agreement. ▪ Evaluated the appropriateness of the method used by management in determining the fair values ▪ Tested the data used in determining the fair values. ▪ Evaluated the reasonableness of assumptions used in determining the underlying fair values by: ○ Considering whether production costs were consistent with the actual performance of the acquired entities, and whether they were consistent with evidence obtained in other areas of the audit.

Key audit matter	How our audit addressed the key audit matter
of the acquired PP&E assets require significant judgment by management and include production costs, forecast benchmark commodity prices and discount rates. The acquired oil and gas reserves are estimated by the Company's independent qualified reserves evaluators (management's experts). We considered this a key audit matter due to the significant judgment applied by management, including the use of management's experts, when developing the estimates of the acquired oil and gas reserves and the fair value of the acquired PP&E assets, including the development of assumptions. This, in turn, led to a high degree of auditor judgment, subjectivity and effort in performing procedures and evaluating audit evidence related to the assumptions used by management. The audit effort involved the use of professionals with specialized skill and knowledge in the field of valuation.	○ Comparing forecast benchmark commodity prices to other reputable third party industry forecasts. ○ Using professionals with specialized skill and knowledge in the field of valuation, who assisted us in assessing the reasonableness of the discount rates. • The work of management's experts was used in performing the procedures to evaluate the reasonableness of the acquired oil and gas reserves used to determine the fair values of the PP&E assets. As a basis for using this work, the competence, capabilities and objectivity of management's experts were evaluated, the work performed was understood and the appropriateness of the work as audit evidence was evaluated. The procedures performed also included evaluation of the methods and assumptions used by management's experts.

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 judgment and maintain professional skepticism 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.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

PricewaterhouseCoopers SA

Colin Johnson
March 8, 2023

Dmytro Gotra

Consolidated Statement of Comprehensive Income

For the year ended December 31, 2022

Expressed in thousands of United States dollars	Note	For the year ended December 31, 2022	2021
Revenues	7	**176,665**	**102,323**
Cost of goods sold:			
Lifting costs	8	(24,150)	(19,893)
Other costs of production	8	(208)	(6,592)
Depletion	8	(46,366)	(25,949)
Gross margin on oil sales		**105,941**	**49,889**
Depreciation and amortization expense		(218)	(219)
Share based payments expense	21	(2,338)	(1,627)
General and administrative expense	9	(9,909)	(7,836)
Credit loss provision		(3,873)	2,038
Income from operating activities		**89,603**	**42,245**
Bargain purchase gain on acquisition	6	60,081	-
Finance income	10	4,909	844
Finance cost	11	(39,479)	(29,627)
Net finance cost		**(34,570)**	**(28,783)**
Income before income tax expense		**115,114**	**13,462**
Income tax expense	12	(155)	(79)
Income for the year		**114,959**	**13,383**
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Re-measurements on defined pension plan		549	364
Items that may be reclassified to profit or loss:			
Currency translation differences		41	(70)
Total other comprehensive income		**590**	**294**
Total comprehensive income for the year		**115,549**	**13,677**
Income in dollars per share:			
Basic		0.05	0.01
Diluted		0.04	0.01

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

Consolidated Balance Sheet

As at December 31, 2022

Expressed in thousands of United States dollars	Note	2022	2021
ASSETS			
Non-current assets			
Property, plant and equipment	*13*	302,384	138,971
Right-of-use asset		196	57
Intangible assets		15	37
		302,595	**139,065**
Current assets			
Loans and receivables	*14*	88,279	48,249
Cash and cash equivalents, unrestricted		69,273	43,589
Cash and cash equivalents, restricted	*17*	36,457	128,077
Other current assets	*15*	2,089	9,485
		196,098	**229,400**
TOTAL ASSETS		**498,693**	**368,465**
LIABILITIES			
Non-current liabilities			
Borrowings	*17*	236,443	-
Provisions	*19*	32,926	18,984
Loan from related party	*18*	16,175	21,748
Cash-settled deferred share units	*21*	785	635
Pension liability		401	1,023
Lease liability		53	-
		286,783	**42,390**
Current liabilities			
Borrowings	*17*	22,500	280,999
Accounts payable and accrued expenses	*16*	15,286	10,589
Accrued interest expense on bonds	*17*	10,202	15,840
Lease liability		138	51
Current tax liabilities		90	58
		48,216	**307,537**
EQUITY			
Share capital	*20*	670,250	640,521
Share based payments reserve	*21*	10,621	9,446
Loan Share reserve	*18*	-	2,490
Cumulative translation adjustment		21	(20)
Accumulated deficit		(517,198)	(633,899)
		163,694	**18,538**
TOTAL EQUITY AND LIABILITIES		**498,693**	**368,465**

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

Signed on behalf of the Board of Directors

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

/s/Chris Bruijnzeels
Chris Bruijnzeels, Director

Consolidated Statement of Cash Flow

For the year ended December 31, 2022

Expressed in thousands of United States dollars	Note	For the year ended December 31, 2022	2021
Operating activities			
Income for the period		**114,959**	**13,383**
Adjustments for non-cash related items:			
Depreciation, depletion and amortization expense		46,584	26,168
Borrowing costs – net of amount capitalized		40,329	30,201
Share based payment expense		2,250	1,627
Re-measurements on defined pension plan		549	364
Foreign exchange (loss)/gain	*10/11*	66	(12)
Unwinding discount on decommissioning provision		(964)	(690)
Net gain from settlement of debt	*10*	(1,138)	(792)
Interest income	*10*	(3,771)	(40)
Bargain purchase gain	*6*	(60,081)	-
Changes in accounts payable and accrued expenses		15,547	7,011
Changes in other current assets		312	(8,914)
Changes in current tax liabilities		82	52
Changes in pension liability		(598)	(402)
Changes in accounts receivables on oil sales		(48,843)	(4,053)
Net cash inflows from operating activities		**105,283**	**63,903**
Investing activities			
Loans – payments received		8,813	23,873
Interest received on cash deposits	*10*	3,771	40
Purchase of intangible assets		(2)	5
Purchase of property, plant and equipment		(25,839)	(14,220)
Purchase of acquisition net of cash received	*6*	(110,437)	-
Net cash (outflows to) / inflows from investing activities		**(123,694)**	**9,698**
Financing activities			
Proceeds received from shares issued on Rights Offering		29,572	-
Proceeds received on new bond issue		-	109,800
Payments to repurchase bonds		-	(2,988)
2023 Bond retirement		-	(14,208)
Principal element of lease payments		(85)	(130)
Rights offering transaction costs		(2,067)	-
2025 Bond transaction costs		(6,261)	-
Bond purchases		(27,456)	-
Payments to bondholders – interest	*17*	(41,182)	(22,724)
Net cash (outflows to)/inflows from financing activities		**(47,479)**	**69,750**
Effect of exchange rate changes on cash and cash equivalents		(46)	(103)
Change in cash and cash equivalents		**(65,936)**	**143,248**
Cash and cash equivalents, beginning of the year		171,666	28,418
Cash and cash equivalents, end of the year*		**105,730**	**171,666**
***Inclusive of restricted cash**	*17*	**36,457**	**128,077**

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

Consolidated Statement of Changes in Equity

For the year ended December 31, 2022

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, 2021	**638,434**	**8,766**	**4,063**	**50**	**(647,646)**	**3,667**
Total comprehensive income / (loss) for the year:						
Income for the year	-	-	-	-	13,383	13,383
Other comprehensive (loss) / income	-	-	-	(70)	364	294
Transactions with owners in their capacity as owners:						
Share based payments expense	-	680	-	-	-	680
Loan Shares issued	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**
Total comprehensive income for the year:						
Income for the period	-	-	-	-	114,959	114,959
Other comprehensive income	-	-	-	41	549	590
Transactions with owners in their capacity as owners:						
Share based payments expense (excluding DSU, Note 21)	-	1,175	-	-	-	1,175
Loan Shares issued (Note 18)	1,297	-	(2,490)	-	1,193	-
Shares issued on Rights Offering	29,571	-	-	-	-	29,571
Transaction costs	(2,066)	-	-	-	-	(2,066)
RSU Shares issued	927	-	-	-	-	927
	29,729	1,175	(2,490)	41	116,701	145,156
Balance at December 31, 2022	**670,250**	**10,621**	**-**	**21**	**(517,198)**	**163,694**

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 the following interests in production sharing contracts:

- An 27.6% non-operated participating interest in the Atrush block production sharing contract ("Atrush PSC") related to a petroleum property located in the Kurdistan Region of Iraq ("Kurdistan"). The Atrush block is currently in the eighth year of a twenty-year development period with an automatic right to a five-year extension and the possibility to extend for an additional five years. Oil production on the Atrush block commenced in July 2017.
- On September 14, 2022, the Company announced that it closed the acquisition of TEPKRI Sarsang A/S, a subsidiary of TotalEnergies S.E. (the "Sarsang Acquisition"). The Company now holds, through this wholly owned subsidiary, an 18% non-operated participating interest (22.5% paying interest) in the Sarsang Production Sharing Contract ("Sarsang PSC") in Kurdistan. Oil production on the Sarsang block commenced in Q1 2013. 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 March 8, 2023, 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. There are some uncertainties regarding the timing of the payment of the current accounts receivables on oil sales. The Company (together with other International Oil Companies) remains in discussions with the KRG about the appropriate recovery mechanism for these receivables, however in line with precedents full recovery is expected. The Company has forecasted to have sufficient cash in the next 12 months to fund the Company's costs.

Following the closing of the Sarsang Acquisition on September 14, 2022, a new bond (the "2025 Bond") with new terms has been settled and is reflected. The possible exercise of a put option and the breach of a financial covenant, as per the 2023 Bond, are not applicable to the 2025 Bond.

Refer to Notes 6, 14 and 17 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 utilized 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 amortized 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 cost of disposal 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 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.

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 17.

j. Borrowings

Borrowings are recognized initially at fair value, net of any transaction costs incurred. Borrowings are subsequently carried at amortized 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 utilized. 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.

m. 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.

n. 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.

o. 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.

p. 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.

q. 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 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 and Sarsang Joint Operating Agreement's and the Atrush and Sarsang PSC's which have 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 and Sarsang oil volumes to be sold to the KRG at a discount to the Dated Brent oil price for Atrush, and to Kurdistan Blend ("KBT") oil price for Sarsang, 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/KBT and the control is transferred to the buyer at the agreed delivery 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.

r. Changes in accounting policies

There are no IFRS or interpretations that have been issued effective for financial years beginning on or after January 1, 2022, that would have a material impact on the Company's consolidated financial statements.

s. 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, 2023, 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) Fair value of assets acquired and liabilities assumed in the Sarsang Acquisition

The fair value of assets acquired and liabilities assumed in the Sarsang Acquisition, as described in Note 6, is estimated based on information available at the date of acquisition. Various valuation techniques are applied for measuring fair value including market comparables and discounted cash flows which rely on assumptions such as forward commodity prices, reserves and resources estimates, production costs and discount rates. Changes in these variables could significantly impact the carrying value of the net assets.

(b) Revenue Recognition

As explained in Note 3(q) the Company recognizes revenues when oil reaches the delivery point 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 a 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.

(c) 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, depletion 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 testing purposes, the anticipated date of site decommissioning and restoration and the depletion charges based on the unit of production method.

In February 2023 the Company received an independent reserves and resources report from McDaniel & Associates Consultants Ltd. ("McDaniel") which estimates the total Proven plus Probable Oil Reserves ("2P reserves") on a Company gross basis as of December 31, 2022, to be 68.3 million barrels. McDaniel estimated the 2P reserves on a Company gross basis as of December 31, 2021, to be 30.4 million barrels, based on Atrush only.

(d) Loans and receivables

The Company has reported current receivables of $88.3 million (2021: $48.2 million), comprised of the Company's share of Atrush and Sarsang oil sales. 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 August 2022.

In the year 2023 up to the date these financial statements were approved, the Company received a total of $21.3 million in payments relating to the loans and receivables balances outstanding at December 31, 2022. 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.

(e) 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 either its Atrush and Sarsang 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 in the Company's share of the latest estimated 2P reserves 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 and relevant discounts, supports the book value of oil and gas assets included in PP&E.
- *Oil price:* there has been a significant improvement in the forecasted Brent oil price since last year.
- *Costs per barrel:* the forecasted costs per barrel required to recover the oil reserves have remained consistent to last year.
- *Market:* there continues to be an active market and capacity for Atrush and Sarsang oil sales as demonstrated by the current and future expected levels of oil exports from Kurdistan.

(f) 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 19.

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

a. Summary of acquisition

On September 14, 2022, the Company announced the closing of the Sarsang Acquisition. The Company purchased 100% of the shares of TEPKRI Sarsang A/S, now ShaMaran Sarsang A/S, which holds an 18% non-operated participating interest (22.5% paying interest) in the Sarsang PSC in Kurdistan. Details of the purchase consideration, the net assets acquired and bargain purchase gain are as follows:

Purchase consideration:

Cash paid [1]	142,096
Deferred payment [2]	22,918
Contingent consideration [2]	10,950
Total purchase consideration	**175,964**

[1] The cash paid represents an upfront payment of $135 million plus $7.096 million of working capital adjustments on closing.

[2] The deferred payment and contingent consideration amounts mainly represent the $20 million convertible promissory note issued to the seller at closing and a potential additional contingent consideration of $15 million. The convertible promissory note was originally negotiated as a 12-month maturity note but was later issued to the seller with a 1-month maturity from the date of closing; at the date of these financials statements this note plus interest have been paid in full. The contingent consideration is payable to the seller upon (i) cumulative gross oil production from the Sarsang PSC reaching 130 MMbbls and (ii) subject to Brent crude oil prices averaging at least $60/bbl for the preceding twelve-month period. The Company has estimated the fair value at the date of the acquisition as $10.95 million, since the acquisition date and balance sheet date this contingent consideration has been revalued to $10.85 million. The difference of $0.1 million has been treated as a finance cost, refer to note 11.

The assets and liabilities recognized as a result of the acquisition are as follows:

	Fair Value
Property, plant and equipment [5]	178,487
Accounts receivables on oil sales [6]	34,420
Cash	31,659
Payables to joint operating partner	(786)
Provision for decommissioning and site restoration [7]	(7,735)
Net identifiable assets acquired	**236,045**
Less: bargain purchase gain [4]	(60,081)
Net assets acquired	**175,964**

[4] The bargain purchase gain is primarily driven by the Sarsang Acquisition having an effective date of January 1, 2021, and the purchase price agreed on signing the agreement July 12, 2021. The acquisition closed September 14, 2022, during which time the Brent price of oil increased.

[5] The fair value of the property, plant and equipment acquired is based on the Company's share of the Sarsang PSC proved and probable reserves as estimated by the Company's independent qualified reserves evaluator, McDaniel. The estimate takes into account the production until closing of the acquisition, an assumed average Brent oil price of $60 per barrel, the impact of KBT pricing (see Note 3q) and has been discounted at 17%.

[6] The fair value of acquired trade receivables is $34.420 million. The gross contractual amount for trade receivables is $36.586 million, with a loss allowance of $2.166 million recognized on acquisition.

[7] The fair value of the provision for decommissioning and site restoration was based on the estimated future cash flows to retire the acquired portion of the oil and gas property at the end of its useful life. The discount rate used to determine the net present value of the provision was a rate of 3.09 percent (the Bank of Canada's long-term bond yield rate).

Up to twelve months from the closing date of the acquisition, further adjustments may be made to the fair values assigned to the identifiable assets acquired and liabilities assumed, as well as to the fair value of the consideration transferred.

There were no acquisitions in the year ending 31, December 2021.

Revenue and profit contribution

The acquired business contributed revenues of $33.7 million and net profit of $17.1 million to the group from the period September 15 to December 31, 2022, in the consolidated statement of comprehensive income for the reporting period.

b. Purchase consideration – cash outflow

Outflow of cash to acquire subsidiary, net of cash acquired

Cash consideration	142,096
Less: Balance acquired	
Cash	(31,659)
Net outflow of cash – investing activities	**110,437**

The cash consideration was partly paid from the proceeds of the initial 2025 Bond issue that were placed in escrow subject to release following the satisfaction of conditions precedent to completion of the Sarsang Acquisition. This unrestricted cash held in escrow totalled $108.2 million at closing, the additional $33.9 million of the cash consideration was paid from the Company's unrestricted cash balance.

Acquisition related costs

Acquisition-related costs, incurred during 2022, of $349 thousand (2021: $1,094 thousand) are included in general and administrative expenses in the income statement and in operating cash flows in the statement of cash flows.

Refer also to Notes 13, 14, 16, 17, 18 and 25.

7. Revenues

Revenues relate to the Company's entitlement share of oil from Atrush sold to the KRG during the year to date and the Company's entitlement share of oil from Sarsang sold to the KRG from September 15 to December 31, 2022. The Company holds a 27.6% interest in Atrush and a 18% interest in Sarsang. Production from the fields is delivered to the KRG's Feeder Pipeline for onward export to Ceyhan, Turkey. Gross exported oil volumes in the year 2022, including 108 days from Sarsang, were 17.6MMbbls (2021: 14.1MMbbls) and the Company's entitlement share was approximately 2.2MMbbls (2021: 1.9MMbbls) which were sold with an average netback price of $79.14 per barrel (2021: $54.75). The Company uses export prices based on KBT oil price for both assets, with a discount for estimated oil quality adjustments and all local and international transportation costs. Even though TAQA Atrush B.V. ("TAQA"), the Operator of the Atrush Block, is still negotiating with the KRG the terms of a new lifting agreement, the terms are expected to be the similar to those of the Sarsang signed lifting agreement. Revenue has been recognized accordingly from September 1,2022, the anticipated effective date of the new lifting agreement. ShaMaran's oil entitlement share is based on export prices and on PSC terms covering allocation of profit oil, cost oil and capacity building payments owed to the KRG.

Refer also to Note 6, 14 and 25.

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 and Sarsang blocks including operation and maintenance of wells and production facilities, insurance, and the respective operator's related support costs as charged to the Company. The increase in the year 2022 lifting costs over the amount in the year 2021 was mainly due to increased diesel prices and include 108 days of Sarsang's lifting costs. Other costs of production include the Company's share of production bonuses and its share of other costs prescribed under the PSC's.

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

Refer also to Notes 6, 7 and 13.

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,	
	2022	2021
Interest on deposits	3,771	40
Net gain on settlement of debt	1,138	792
Total gain and interest income	**4,909**	**832**
Foreign exchange gain	-	12
Total finance income	**4,909**	**844**

Interest on deposits in the year 2022 includes $1.4 million of interest (2021: nil) from the $30.7 million of the Company bonds that were purchased but not retired.

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 bond terms.

Refer also to Note 17.

11. Finance cost

	For the year ended December 31,	
	2022	2021
Interest/amortization charges on bonds	35,544	27,419
Amortization of the related party loan	2,662	2,534
Re-measurement of bond debt and Nemesia loan	2,465	-
Amortization of 2023 Bond transaction costs	1,223	771
Total borrowing costs	**41,894**	**30,724**
Foreign exchange loss	66	-
Interest expenses	35	80
Lease – interest expense	13	21
Finance cost bond purchase	-	15
Re-measurement of contingent consideration	(101)	-
Unwinding discount on decommissioning provision	(964)	(690)
Total finance costs before borrowing costs capitalized	**40,943**	**30,150**
Borrowing costs capitalized	(1,464)	(523)
Total finance cost	**39,479**	**29,627**

Interest and amortization charges include interest on the initial issue amount of $111.5 million of the 2025 bond issued on July 30, 2021, and from September 27, 2022, these costs represent the amortization of the full $300 million 2025 bond, related transaction costs and interest. Refer to Note 17.

Re-measurement of bond debt and Nemesia loan relates to the accounting for the derecognition of the 2023 bonds and loan prior to September 27, 2022.

Refer to Notes 17 and 18 regarding the 2023 Bond transaction costs and related party loan.

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

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,	
	2022	**2021**
Canadian losses from operations	169,213	127,132
Canadian exploration expenses	2,464	2,464
Canadian unamortized share issue costs	36	71
U.S. Federal losses from operations	173,480	173,398
U.S. Federal tax basis in excess of carrying values of properties	3,654	3,654
Total tax losses carried forward	**348,847**	**306,719**

The Canadian losses from operations may be used to offset future Canadian taxable income and will expire over the period from 2029 to 2042. The Canadian exploration expenses may be carried forward indefinitely to offset future taxable Canadian income. Canadian unamortized share issue costs may offset future taxable Canadian income of years 2023 to 2025. 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 $84 million (2021: $72 million) as it is not probable that these amounts will be realized.

13. Property, plant and equipment

	Oil and gas assets	Computer equipment	Furniture and office equipment	Total
At January 1, 2021				
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**
For the year ended December 31, 2022				
Opening net book value	138,804	70	97	138,971
Additions	31,291	54	13	31,358
Sarsang Acquisition	178,487	-	-	178,487
Depletion and depreciation expense	(46,365)	(28)	(39)	(46,432)
Net book value	**302,217**	**96**	**71**	**302,384**
At December 31, 2022				
Cost	458,982	173	221	459,376
Accumulated depletion and depreciation	(156,765)	(77)	(150)	(156,992)
Net book value	**302,217**	**96**	**71**	**302,384**

The net book value of PP&E is principally comprised of development costs related to the Company's share of the Atrush PSC and the fair value of the Company's share of the Sarsang PSC 2P reserves as estimated by the Company's independent qualified reserves evaluator, McDaniel. During the year 2022, movements in PP&E were comprised of the Sarsang Acquisition of $178.5 million (2021: $nil), general additions of $31.4 million (2021 full year: $18.9 million), which included capitalized borrowing costs of $1.5 million (2021 full year: $523 thousand), net of depletion and depreciation expense of $46.4 million (2021 full year: $26.0 million) which resulted in a net increase to PP&E assets of $163.4 million.

Refer also to Note 6 and 8.

14. Loans and receivables

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

	For the year ended December 31,	
	2022	**2021**
Accounts receivable on oil sales	95,481	40,599
Atrush Exploration Costs receivable	-	8,813
Credit Loss Provision – transportation costs	(3,695)	-
Credit Loss Provision	(3,507)	(1,163)
Total loans and receivables, net of provisions	**88,279**	**48,249**

The $95.5 million of accounts receivable on oil sales at December 31, 2022, relates to deliveries from August 2022 through to December 2022. At the date these financial statements were approved the Company had received a total of $21.3 million in payments relating to the receivable's balances outstanding at December 31, 2022.

The Atrush Exploration Costs receivable was fully repaid during 2022.

A provision has been made to account for a possible increase in transportation and access fees of $3.7 million (2021: $nil). According to the KRG these costs were added as a result of increased pipeline costs and other tariffs; this increase has yet to be agreed between the parties.

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

Refer also to Note 7.

15. Other current assets

	For the year ended December 31,	
	2022	**2021**
Other receivables	1,485	383
Prepaid expenses	604	9,102
Total other current assets	**2,089**	**9,485**

The prepaid expenses balance at December 31, 2021, included $8.9 million relating to the refinancing of the Company debt and to the rights offering to shareholders of the Company. At December 31, 2022, all the expenses relating to the refinancing of the Company debt have been capitalized along with the 2025 Bond and all of the expenses relating to the rights offering have been charged directly to equity as part of the rights offering closing.

Refer also to Notes 17 and 20.

16. Accounts payable and accrued expenses

	For the year ended December 31,	
	2022	**2021**
Payables to joint operations partner	11,049	3,021
Accrued expenses	3,333	7,150
Trade payables	904	418
Total accounts payable and accrued expenses	**15,286**	**10,589**

Payables to joint operations partner at December 31, 2022, includes payables to Atrush and Sarsang operators (2021: Atrush only).

Refer to Note 6.

17. Borrowings

The ShaMaran bond issued in 2018 carried a 12% fixed semi-annual coupon and was due to mature on July 5, 2023 (the “2023 Bond”). The Company fulfilled an obligation under the 2023 Bond Terms to make the amortization payment of $15 million by December 2021, reducing the outstanding principal amount of the 2023 Bond to $175 million.

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 shall be partially amortized in instalments with $22.5 million due every 6 months from July 2023 and the remaining balance due at maturity. The 2025 Bond was issued at a price of 98.5% of nominal value which was applicable to both new money under the Initial Issue Amount of $111.5 million in July 2021 and the refinancing of $175 million of existing debt in September 2022. Following the closing of the Sarsang Acquisition the Company announced on September 27, 2022, that the Company’s 2023 Bond was exchanged for its 2025 Bond at 2% premium, in accordance with the 2025 Bond Terms, and that accrued interest was paid in full at September 26, 2022, to all bondholders.

The existing debt that was refinanced into the new bond included $7.2 million of the total $22.8 million debt owed by the Company to Nemesia S.à.r.l. (“Nemesia”) with the $15.6 million balance remaining on amended terms. Refer to Note 18 for further detail.

During 2021 and 2022 the Company purchased its own Bonds in the market at commercially attractive rates. At December 31, 2022, the Company held $30.7 million of its own 2025 Bond (2021: $3 million). These Bonds have not been retired.

The possible exercise of a put option and the breach of a financial covenant, as per the 2023 Bond, are not applicable to the 2025 Bond. Therefore, all the borrowings are now classified as non-current at December 31, 2022, except for the first amortization payment of $22.5 million due July 2023 and accrued interest of $10.2 million.

At December 31, 2022, $36.4 million of restricted cash is held in a Debt Service Retention Account (“DSRA”) to cover the interest relating to the 2025 bond. As per the Bond Terms, this amount represents a full year of interest payments and is required to be increased to $58.5 million in January 2023.

The movements in borrowings are explained as follows:

	For the year ended December 31,	
	2022	**2021**
Opening balance:	**296,839**	**199,561**
2025 bond issued	188,528	111,472
Interest/amortization charges	35,544	27,419
Amortization of bond transaction costs	2,486	771
2025 bond discount	(4,092)	-
2025 bond transaction costs	(6,261)	(1,672)
Bond purchases	(27,717)	(2,988)
Payments to bondholders – interest	(41,182)	(22,724)
2023 bond amount retired	(175,000)	(15,000)
Ending balance	**269,145**	**296,839**
Non-current portion: net borrowings	236,443	-
Current portion: borrowings	22,500	280,999
Current portion: accrued bond interest expense	10,202	15,840

Refer also to Note 11.

18. Loan from related party

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

In accordance with IFRS 9 Financial Instruments the liquidity guarantee was a compound financial instrument which had two parts: a liability component and an equity component. The fair value of the liability component was presented on the balance sheet as "loan from related party". The fair value of the equity was presented on the balance sheet as "Loan Share reserve". As Nemesia was issued the Company shares each month the Loan Share reserve value was transferred into share capital on a straight-line basis. During 2022 $1,297 thousand (full year 2021: $1,573 thousand) had been transferred into share capital.

After the successful closing of the Sarsang Acquisition and the Bond conversion on September 27, 2022 (see Note 17) $7.2 million of the existing $22.8 million debt was refinanced into the new 2025 Bond. The balance of $15.6 million remains as the Nemesia loan with new terms. The interest rate on the Nemesia Loan has been adjusted to match the interest rate on the new bond of 12% (which will be payable in cash semi annually) plus an additional interest amount of 2% per annum payable in kind. The monthly common share allotment to Nemesia has been eliminated.

Following the changes above, the Nemesia loan accounting was changed accordingly. The liability component has been split into the part which was converted to the 2025 Bond and the part to be carried forward into the new loan, the difference between the values is the re-measurement of debt. The equity component no longer exists from September 27, 2022, with the final share issue occurring in October 2022. The remaining $1.2 million has been expensed to retained earnings.

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

	For the year ended December 31,	
	2022	**2021**
Opening balance	**21,748**	**19,215**
Recognize Nemesia loan on new terms	15,600	-
Amortization	2,662	2,533
Derecognize Nemesia loan on old terms	(23,835)	-
Ending balance	**16,175**	**21,748**

Refer also to Notes 11, 17, 20 and 26.

19. Provisions

	For the year ended December 31,	
	2022	**2021**
Opening balance	18,984	15,479
Changes in estimates and obligations incurred	9,779	(7,824)
Changes in discount and inflation rates	(5,722)	12,019
Unwinding discount on decommissioning provision	(964)	(690)
Total decommissioning and site restoration provisions	**22,077**	**18,984**
Contingent consideration	10,849	-
Total provisions	**32,926**	**18,984**

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

The contingent consideration relates to the Sarsang Acquisition, refer to Note 6 for details.

20. Share capital

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

	Number of shares	Share capital
At January 1, 2021	**2,175,868,201**	**638,434**
Loan Shares issued	27,360,000	1,572
RSU Shares issued	12,121,462	515
At December 31, 2021	**2,215,349,663**	**640,521**
Loan Shares issued	22,572,000	1,297
RSU Shares issued	11,119,995	816
DSU Shares issued	1,566,832	111
Right Offering Shares issued, net of issuance costs	558,242,414	27,505
At December 31, 2022	**2,808,850,904**	**670,250**

As described in Note 18, the Company was required under the old Nemesia loan terms to issue to Nemesia 50,000 shares of ShaMaran for each $500 thousand drawn down per month until the drawn amount was repaid, which resulted in a total of 22,572,000 Loan Shares being issued during the year 2022 (2021: 27,360,000).

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

During 2022, 11,119,995 Restricted Share Units ("RSUs") and 1,566,832 Deferred Share Units ("DSUs) vested in accordance with the Company's Share Unit Plan (2021: 12,121,462 RSUs and nil DSUs) 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 18 and 21.

Earnings per share

The earnings per share amounts were as follows:

	For the year ended December 31,	
	2022	2021
Net income, in dollars	114,959,000	13,383,000
Weighted average number of shares outstanding during the year	2,581,563,233	2,199,166,965
Weighted average diluted number of shares outstanding during the year	2,698,241,183	2,295,666,925
Basic and diluted income per share, in dollars	0.04	0.01

21. Share based payments expense

The Company has established share unit plans and a share purchase option plan whereby a committee of the Company's Board may, from time to time, grant up to a total of 10% of the issued share capital to directors, officers, employees or consultants. At December 31, 2022, a total of 116,677,950 shares, 4% of issued share capital, had been granted of the possible 280,885,090 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 2022, the Company granted a total of 20,750,000 stock options, 10,890,000 RSUs and 2,287,620 DSUs to certain senior officers and other eligible persons of the Company (2021 full year: a total of 15,590,000 stock options, 8,950,000 RSUs and 5,059,600 DSUs were granted). The options vest over a period of two years and are exercisable over a period of five years at an average strike price of CAD 0.10 per share. The RSU grants were based on the grant share price of CAD 0.10, vest over a period of three years and are redeemable in cash or shares of the Company up to five years after the grant date.

In the year 2022 a total of 10,869,995 RSUs vested and the same quantity of shares were issued to plan participants, and 2,879,486 DSUs were exercised of which 1,566,832 were redeemed in shares and the rest in cash. (2021 full year: a total of 12,121,462 RSUs vested, and shares were issued, and 14,210,000 stock options and 3,418,537 RSUs expired or were cancelled).

The result of the movements in the year of 2022, are charges to the Statement of Comprehensive Income for options of $1,039 thousand (2021: $654 thousand), for RSUs $951 thousand (2021: $540 thousand) and for DSUs $348 thousand (2021: $433 thousand). The carrying amount of the DSU liability at December 31, 2022, is $785 thousand (December 31, 2021: $635 thousand).

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

	Number of share options outstanding	Number of RSUs outstanding	Number of DSUs outstanding
At December 31, 2021	**61,990,000**	**22,103,334**	**12,406,477**
Granted in the year	20,750,000	10,890,000	2,287,620
DSU Shares exercised	-	-	(2,879,486)
RSU Shares vested and issued	-	(10,869,995)	-
At December 31, 2022	**82,740,000**	**22,123,339**	**11,814,611**
Quantities vested and unexercised:			
At December 31, 2021	43,069,995	-	12,406,477
At December 31, 2022	63,939,995	-	11,814,611
Weighted average remaining contractual life of options:			
At December 31, 2021	2.98 years		
At December 31, 2022	2.30 years		

The Company recognizes compensation expense on share options granted to both employees and non-employees using the fair value method at the date of grant, which the Company records as an expense. The share-based payments expense for these options is calculated using the Black-Scholes option pricing model.

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate and therefore the existing models do not necessarily provide a reliable single measure of the fair value of the Company's share options.

22. 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,	
	2022	2021
Present value of defined benefit obligation	2,336	2,663
Fair value of plan assets	(1,943)	(1,640)
Pension liability	**393**	**1,023**

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

	For the year ended December 31,	
	2022	2021
Opening balance	2,663	3,539
Current service cost	193	219
Ordinary contributions paid by employees	148	131
Interest expense on defined benefit obligation	5	8
Administration costs	4	5
Additional contributions paid by employees	-	33
Past service cost	(27)	(67)
Foreign exchange (gain) / loss	(44)	(126)
Benefits paid from plan assets	(69)	(721)
Actuarial gain on defined benefit obligation	(537)	(358)
Defined benefit obligation, ending balance	**2,336**	**2,663**

The weighted average duration of the defined benefit obligation is 14.96 years. There is no maturity profile since the average remaining life before active employees reach final age according to the plan is 9.06 years.

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

	For the year ended December 31,	
	2022	2021
Opening balance	1,640	2,061
Ordinary contributions paid by employer	223	197
Ordinary contributions paid by employees	148	131
Return on plan assets excluding interest income	12	6
Interest income on plan assets	3	5
Additional contributions paid by employees	-	33
Foreign exchange (loss) / gain	(14)	(72)
Benefits paid from plan assets	(69)	(721)
Fair value of plan assets, ending balance	**1,943**	**1,640**

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,	
	2022	2021
Current service cost	193	219
Interest expense on defined benefit obligation	5	8
Administration costs	4	5
Interest income on plan assets	(3)	(5)
Past service cost	(27)	(67)
Total expense recognized	**172**	**160**

The expense associated with the Company's pension plan of $172 thousand was included within general and administrative expenses. The Company also recognized in other comprehensive gain a $549 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,	
	2022	2021
Discount rate	2.25%	0.20%
Inflation rate	1.25%	1.00%
Future salary increases	1.25%	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 2023 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 6.9%	increase by 7.8%
Salary growth rate	0.50%	increase by 0.3%	decrease by 0.3%
Life expectancy	1 year	increase by 1.0%	decrease by 1.1%

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.

23. 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, 2022	At December 31, 2021
Loans and receivables[2] [5]		88,279	48,249
Cash and cash equivalents, unrestricted [2]		69,273	43,589
Cash and cash equivalents, restricted [2]		36,457	128,077
Other receivables [2]		1,485	383
Total financial assets		**195,494**	**220,298**

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

Financial liabilities

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

	Fair value hierarchy [6]	Carrying values	
		At December 31, 2022	At December 31, 2021
Borrowings [3]	Level 2	258,943	280,999
Related party loan[4]	Level 2	16,175	21,748
Accounts payable and accrued expenses [2]		15,286	10,589
Accrued interest on bonds		10,202	15,840
Current tax liabilities		90	58
Total financial liabilities		**300,696**	**329,234**

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

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

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

[3] The Company estimates the fair value of its net borrowings at the balance sheet date is $259.9 million (December 31, 2021: $283.5 million) based on recent trades of the Company's bonds.

[4] The Company estimates the fair value of its related party loan at the balance sheet date is $15.6 million based on its nominal value.

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

[6]*Fair value measurements*

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

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

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 $295.7 million as at December 31, 2022 (2021: $323.1 million). Refer also to Notes 17 and 18.

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 and KBT 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 Note 4(e).

The table below summarises the effect that a change in the oil prices would have had on the net income during the year ended December 31, 2022:

Net Income reported in the financial statements	115,114	115,114
Possible shift - (decrease) / increase in oil price in %	(15%)	15%
Total (decrease) / increase in the net income	**(30,841)**	**32,487**

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,	
	2022	**2021**	**2022**	**2021**	**2022**	**2021**
Canadian dollars in thousands ("CAD 000")	91	46	28	31	242,605	152,895
Swiss francs in thousands ("CHF 000")	591	558	2,143	1,651	-	-

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	
	2022	2021	2022	2021	2022	2021
Statement of comprehensive income – CAD	5	3	(2)	(2)	(14,281)	(10,294)
Statement of comprehensive income - CHF	78	75	(282)	(223)	-	-

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 the Atrush and Sarsang projects, and at the corporate level due to the $300 million of 2025 Bond. 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 50% in the interest rate would not have a material impact on the Company's profit or loss for the year. An interest rate of 50% is used as it represents management's assessment of the reasonably possible changes in interest rates.

	Existing Rate		Hypothetical Strengthening in interest rate by 50%		Hypothetical weakening in interest rate by 50%	
	2022	2021	2022	2021	2022	2021
Foreign Cash and cash equivalents	91	-	91	-	91	-
Interest Rate	4%	-	6%	-	2%	-
Future annual interest income	4	-	5	-	2	-

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.

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.

	Less than one year	From one to three years	Total
Borrowings	52,900	336,000	**388,900**
Payables to joint operations partner	11,049	-	**11,049**
Trade payables and accrued expenses	4,237	-	**4,237**
Loan from related party	1,581	21,060	**22,641**
Total	**69,767**	**357,060**	**426,827**

Refer to Notes 16, 17 and 18.

24. Commitments and contingencies

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

	For the year ended December 31,				
	2023	2024	2025	Thereafter	Total
Atrush and Sarsang block development and PSC	104,104	166	166	1,158	**105,594**
Sarsang contingent consideration	-	-	-	15,000	**15,000**
Corporate office and other	140	54	-	-	**194**
Total commitments	**104,244**	**220**	**166**	**16,158**	**120,788**

Amounts relating to Atrush and Sarsang block developments represent the Company's unfunded paying interest share of the proposed 2023 work program and other obligations under the PSC's.

Refer to Note 6 regarding the Sarsang contingent consideration.

25. Interests in joint operations and other entities

Interests in joint operation - Atrush Block Production Sharing Contract

ShaMaran holds a 27.6% interest in the Atrush PSC through General Exploration Partners, Inc ("GEP"). TAQA 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.

Interests in joint operation - Sarsang Production Sharing Contract

ShaMaran holds an 18% interest in the Sarsang PSC through ShaMaran Sarsang A/S. HKN Energy Ltd. ("HKN") is the Operator of the Sarsang blocks with a 62% direct interest and the KRG holds a 20% direct interest. HKN, the KRG and ShaMaran Sarsang A/S together are "the Contractors" to the Sarsang PSC.

Under the terms of the Sarsang 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 Sarsang PSC. All modifications to the Sarsang PSC are subject to the approval of the KRG. The Company is responsible for its pro-rata share of the KRGs and its own pro-rata share of the costs incurred in executing the development work program on the Sarsang Block which commenced on June 30, 2013.

Refer also to Note 13.

Information about subsidiaries

The consolidated financial statements of the Company include:

Subsidiary	Principal activities	Country of Incorporation	% Equity interest as at 31 Dec 2022	31 Dec 2021
General Exploration Partners, Inc.	Oil exploration and production	Cayman Islands	100	100
ShaMaran Sarsang A/S	Oil exploration and production	Denmark	100	0
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

26. Related party transactions

Transactions with corporate entities

	Purchase of services during the year		Amounts owing at the balance sheet dates	
	2022	2021	2022	2021
Nemesia	2,435	2,709	568	1,830
Namdo Management Services Ltd	32	34	-	-
Total	**2,467**	**2,743**	**568**	**1,830**

Nemesia is a company controlled by a trust settled by the estate of the late Adolf H. Lundin and is a shareholder of the Company. The Company has an obligation to accrue 12% interest (which will be payable in cash semi annually) plus accrue an additional interest amount of 2% per annum payable in kind based on the principal balance outstanding. Refer to Note 18.

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

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

Refer also to Notes 11 and 20.

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,	
	2022	2021
Management's share-based payments	1,863	948
Management's short-term benefits	1,785	707
Management's salaries	974	924
Directors' share-based payments	580	438
Directors' fees	258	261
Management's pension benefits	167	171
Total	**5,627**	**3,449**

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'*.

DIRECTORS

Dr. Adel Chaouch
Director, President and Chief Executive Officer

Chris Bruijnzeels
Director, Chairman

Michael S. Ebsary
Director

Keith C. Hill
Director

William A.W Lundin
Director

Nicholas J. R. Walker
Director

OFFICERS

Dr. Adel Chaouch
Director, President and Chief Executive Officer

Elvis Pellumbi
Chief Financial Officer

Alex C. Lengyel
Chief Commercial Officer and
Corporate Secretary

Suzanne Ferguson
Assistant Corporate Secretary

CORPORATE DEVELOPMENT

Sophia Shane

INVESTOR RELATIONS

Robert Eriksson

Steve Hosein

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Geneva, Switzerland

TRANSFER AGENT

Computershare Trust Company of Canada
Vancouver, Canada

STOCK EXCHANGE LISTINGS

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

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