2023

SHAMARAN petroleum corp

Annual Report

For the year ended December 31, 2023

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INTRODUCTION

Management's discussion and analysis ("MD&A") of the financial and operating results of ShaMaran Petroleum Corp. (together with its subsidiaries, "ShaMaran" or the "Company") is prepared with an effective date of March 6, 2024, 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, 2023, together with the accompanying notes ("Financial Statements").

Company Overview

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

- 27.6% participating interest in the Atrush Block in the Kurdistan Region of Iraq ("KRI") through its wholly-owned subsidiary General Exploration Partners, Inc. ("GEP"). Subject to closing of the transactions announced on January 22, 2024, GEP's direct working interest in the Atrush Block will increase to 50%.

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

ShaMaran's common shares are listed on the TSX Venture Exchange in Canada and the NASDAQ First North Growth Market in Sweden. The Company is incorporated and domiciled in British Columbia, Canada under the *Business Corporations Act* (British Columbia). The address of its registered and records office is 1200-1075 West Georgia Street, Vancouver, BC V6E 3C9, Canada, and its business address is 885 West Georgia Street, Suite 2000, Vancouver, BC V6C 3E8, Canada.

Basis of Preparation

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

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

2023 HIGHLIGHTS

2023 has been a challenging year with the Iraq-Turkey pipeline ("ITP") remaining closed since March 25, 2023, resulting in ShaMaran and other international oil companies ("IOCs") with production in Kurdistan unable to export their crude oil via the ITP. Despite a number of political pronouncements regarding the operational readiness of the pipeline on the Turkish side, it is still unclear when exports will resume. The Company continues to work with the Association of the Petroleum Industry of Kurdistan ("APIKUR") on achieving long-term commercial solutions for future crude oil exports payments and recovery of overdue receivables for past oil sales. The Company and its operating partners have focused on cost reductions and local sales since the ITP closure, and those measures will continue until the ITP exports restart. Sarsang has consistently generated cash since starting local sales in April 2023. Atrush started selling locally in November 2023, and thereafter returned to generating cash. ShaMaran has reduced corporate costs and was able to further improve its liquidity position through a bond waiver in July 2023 enabling the utilization of the Debt Service Retention Account ("DSRA") to satisfy certain debt obligations. In January 2024, the Company announced the acquisition of an additional working interest in Atrush and partnering with HKN as the proposed new Atrush operator. This acquisition will increase ShaMaran's working interest in Atrush from 27.6% to 50%, and the Company expects that it will create opportunities for increased local sales from Atrush and for synergies between the two adjoining blocks, Sarsang and Atrush.

Corporate Highlights:

- The closure of the ITP since March 25, 2023, continues to have a material impact on ShaMaran's operations and financial results. The Company is actively engaging with the relevant parties to resume pipeline exports;
- Production rates from the Sarsang Block were initially reduced following the ITP closure due to market demand constraints when local sales commenced via trucking in April 2023, but production and sales in 2023 subsequently increased every quarter; and
- Production from the Atrush Block was shut-in following the ITP closure, due to a lack of trucking facilities, until sales started to local refineries in November 2023 at reduced rates via pipeline flow reversal.

Financial Highlights:

	Three months ended December 31		Year ended December 31	
USD Thousands	2023	2022	2023	2022
Revenue	20,320	53,173	82,886	176,665
Gross margin on oil sales	11,029	15,194	30,523	105,941
Net result	(904)	12,347	(26,706)	114,959
Cash flow from operations	9,824	12,551	40,482	105,283
EBITDAX	12,839	39,624	44,024	140,060

- Q4 2023 oil sales to the Kurdistan local market averaged a net back price of $39.77/bbl and generated net revenues to the Company of $20.3 million; net revenues for the full-year 2023 were $82.9 million, at an average net back price of $48.87/bbl (including Q1 2023 ITP export sales);
- ShaMaran generated $9.8 million of operating cash flow in Q4 2023 ($40.5 million in operating cash flow during the year) primarily due to the strength of local sales from Sarsang and proactive cost-cutting at both the corporate and operating asset levels; and
- At December 31, 2023, the Company had cash of $71.7 million (including restricted cash of $22.8 million), and gross debt of $293.1 million (including the $277.5 million bond and $15.6 million related-party loan). Net debt was $193 million (including $28.4 million in ShaMaran 2025 bonds held by the Company).

Operational Highlights:

- For 2023, total property gross production was 14.3 MMbbls, and total Company working interest production was 2.9 MMbbls;
- As of December 31, 2023, Atrush has achieved cumulative production of approximately 70.5 MMbbls, and Sarsang has achieved cumulative production of approximately 66.1 MMbbls since development commenced in both fields in 2013;
- The Company's working interest of proved plus probable ("2P") reserves[1] decreased by 2023 production of 2.9 MMbbls, from 68.3 MMbbls at December 31, 2022, to 65.4 MMbbls at December 31, 2023;
- The Company's working interest 2C resource[2] volumes remained constant from 41.5 MMbbls at December 31, 2022, to 41.5 MMbbls at December 31, 2023;

[1] Reserves and contingent resources estimates were provided by McDaniel & Associates Consultants Ltd., the Company's independent qualified resources evaluator, and were prepared in accordance with standards set out in the Canadian National Instrument NI 51-101 and Canadian Oil and Gas Evaluation Handbook.

[2] Company's working interest 2C resources are defined as the best estimate of working interest quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations using established technology or technology under development, but which are not currently considered to be commercially recoverable due to one or more contingencies.

- Sarsang average gross production was 36.4 Mbopd during Q4 2023 and 29.6 Mbopd for the full-year 2023, with current gross production around 38.0 Mbopd; and
- Atrush average gross production was 9.0 Mbopd during Q4 2023 and 9.8 Mbopd for the full-year 2023, with current gross production around 25.0 Mbopd.

2024 Guidance:

- Due to the continued closure of the ITP and the unpredictability of the local sales market in Kurdistan, the Company has not provided production guidance for 2024.

Subsequent Events:

- The Company refers to its news release on January 22, 2024, regarding the signing of definitive agreements with TAQA International B.V., a subsidiary of Abu Dhabi National Energy Company PJSC ("TAQA"), and HKN Energy IV, Ltd., an affiliate of HKN Energy Ltd. ("HKN"), that upon completion will increase ShaMaran's indirect ownership in the Atrush Block from 27.6% to 50% working interest. Assuming the transaction had closed on December 31, 2023, ShaMaran's reserves and resource position would be impacted as follows:
  - Company's working interest 2P reserves would increase by 28% from 68.3 MMbbls at December 31, 2022, to 87.7 MMbbls as at December 31, 2023; and
  - Company's working interest 2P reserves replacement ratio[3] would be 769%[4] for 2023.
- On January 23, 2024, the Company announced that it intended to use part of its owned bonds to satisfy the $22.5 million bond amortization amount due in January 2024. These bonds were retired in January 2024, leaving $5.9 million of Company owned bonds remaining. After the bond amortization and interest payments at the end of January 2024, the Company had gross debt of $271 million and net debt of $200 million (including restricted and unrestricted cash and company-owned bonds), in line with the Company's news release.

[3] Company's working interest 2P reserves replacement ratio is defined as the ratio of reserves additions to production during the year, including impacts of acquisitions and dispositions.

[4] Company's working interest 2P reserve replacement ratio for the combined blocks has been calculated as follows:

	No Acquisition	Acquisition Included
Extensions, MMstb	-	-
Improved Recovery, MMstb	-	-
Technical Revisions, MMstb	-	-
Acquisitions, MMstb	-	22.3
Total Adjustments, MMstb	-	22.3
2023 Production, MMstb	2.9	2.9
2P Replacement Ratio	-	769%

OPERATIONS REVIEW

Business Overview

The fourth quarter of 2023 saw a continuation of the challenges faced by Kurdistan oil producers since the closure of the ITP in March 2023. The pipeline shutdown has lasted longer than generally expected, and the timing for resuming exports remains uncertain. The Company understands that the Iraq federal government ("GOI") and the Kurdistan Regional Government ("KRG") are in active discussions about a financial framework that will allow exports to resume via the ITP (while the Government of Turkey has indicated the ITP readiness since October 2023). At Sarsang, production continued with sales to the local market on an *ad hoc* weekly basis in the fourth quarter. At Atrush, production restarted in November 2023 with sales to a local refinery through reversal of the existing pipeline infrastructure. All non-essential field operations, associated operating expenditures and the majority of capital expenditures have been scaled back to a minimum at both the Atrush and Sarsang blocks in order to reduce costs while enabling both operators to safely meet local sales demands. ShaMaran has also continued to review and reduce its corporate overhead to preserve liquidity while working towards a long-term commercial solution to the pipeline export and payment situation.

The enactment of the Iraq federal budget for 2023-2025 in June 2023 has not yet improved the financial outlook for the KRG as issues around implementation and payment of the KRG's budget allocation need to be clarified. The Company expects that the main revenue source for the KRG will remain oil sales, with any deficits or excess amounts being adjusted as part of the federal budget implementation process. ShaMaran understands that budget amendment discussions between the KRG and the GOI are continuing.

The Company continues to work as part of APIKUR and believes that a reopening of the ITP for oil exports and a clear payment and receivable recovery plan that is consistent with existing Production Sharing Contracts ("PSCs") are necessary for the full resumption of KRI oil production, and in the best interest of Iraq as a whole and the KRI.

For additional background and history on the Company's Atrush and Sarsang interests, please refer to the Company's Annual Information Form for the year ended December 31, 2022, which is available for viewing both on the Company's website at www.shamaranpetroleum.com and on SEDAR+ at www.sedarplus.ca under the Company's profile.

Operations Overview

Reserves and Resources

On February 14, 2024, the Company reported estimated reserves and contingent resources for the Atrush and Sarsang fields as at December 31, 2023, as reported by the Company's independent reserves and resources evaluator, McDaniel & Associates Consultants Ltd. ("McDaniel").

For 2023, total property gross production was 14.3 MMbbls, and total Company working interest production was 2.9 MMbbls. As of December 31, 2023, Atrush had achieved cumulative production of approximately 70.5 MMbbls, and Sarsang had achieved cumulative production of approximately 66.1 MMbbls since development commenced in both fields in 2013.

The reduced field activity in 2023 resulted in:

- Company's working interest 2P reserves decreasing by 2023 production of 2.9 MMbbls, from 68.3 MMbbls at December 31, 2022, to 65.4 MMbbls at December 31, 2023; and
- Company's working interest 2C resource volumes remaining constant from 41.5 MMbbls at December 31, 2022, to 41.5 MMbbls at December 31, 2023.

The Company refers to its news release on January 22, 2024, regarding the signing of definitive agreements that upon completion will increase ShaMaran's indirect ownership in the Atrush Block from 27.6% to 50% working interest. Assuming the transaction had closed on December 31, 2023, ShaMaran's reserves and resource position would be impacted as follows:

- Company's working interest 2P reserves would increase by 28% from 68.3 MMbbls at December 31, 2022, to 87.7 MMbbls as at December 31, 2023; and
- Company's working interest 2P reserves replacement ratio would be 769% for 2023.

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, 2023, and available under the Company's profile on SEDAR+ at www.sedarplus.ca.

Production

		Three months ended Dec 31		Year ended Dec 31	
		2023	**2022**	**2023**	**2022**
Average daily oil production – gross 100% field (Mbopd)					
- Atrush		9.0	32.7	9.8	35.9
- Sarsang (from September 15, 2022)		36.4	43.0	29.6	12.2
Total		**45.4**	**75.7**	**39.4**	**48.1**
Oil sales – gross 100% field (Mbbl)					
- Atrush		829	3,004	3,557	13,098
- Sarsang (from September 15, 2022)		3,519	3,959	10,852	4,448
Total		**4,348**	**6,963**	**14,409**	**17,546**
ShaMaran oil sales entitlement (Mbbl)					
- Atrush	27.6%	110	398	471	1,739
- Sarsang (from September 15, 2022)	18%	401	447	1,225	494
Total		**511**	**845**	**1,696**	**2,232**

At Atrush, shutdown of the ITP on March 25, 2023, prevented production until November 7, 2023, when local sales started at a reduced rate through pipeline flow reversal. The 2023 average annual production was 9,745 bopd. Note that Atrush was producing at an average rate of 35,600 bopd over the seven days prior to ITP shutdown. Following a period of curtailment to a maximum of 10,000 bopd for most of December 2023 and January 2024, Atrush production increased to 20,000 bopd in February 2024.

The CK-19 production well, completed in January 2023, came online in February 2023. The CK-20 production well, drilled and completed in March 2023, came online in November 2023 (following production restart). Both production wells delivered initial production rates within the expected range.

At Sarsang, shutdown of the ITP had a lesser impact due to the ability to transport crude via trucking. Production continued at reduced levels through 2023. The 2023 average annual production was 29,565 bopd. Note that Sarsang was producing at an average rate of 42,000 bopd over the seven days prior to ITP shutdown. Since the pipeline closure, well and processing capacity has been optimized to meet the local sales demand and field cash generation with two of the four available facilities maintained online for an average production rate of 29,600 bopd during Q4 2023. Sarsang production remained steady at over 35,000 bopd in February 2024.

The STR-A2 production well, drilled in February 2023, was completed and came online during November 2023.

The ST-AW1 water disposal well was drilled and completed in April 2023. It is expected to become operational in March 2024.

Operational Outlook

As previously highlighted, ShaMaran has not provided operational guidance for 2024. The normal resumption of development and operations in both assets is uncertain and subject to a number of criteria linked to the restart of the export pipeline and production payments, including agreement with the KRG on payment of overdue amounts related to sales between October 2022 and March 2023. ShaMaran assumes that local sales conditions prevail through 2024 with a return to development and full operation conditions as of January 1, 2025, and those assumptions are reflected in the work plan and budgets for both assets during 2024.

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 2023	Q3 2023	Q2 2023	Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q1 2022
Continuing operations:								
Revenue	**20,320**	12,644	6,542	43,380	53,173	39,812	44,844	38,836
Cost of goods sold	**(9,291)**	(11,049)	(10,741)	(21,282)	(37,979)	(10,952)	(10,636)	(11,157)
Net Gain on Sarsang Acquisition	**(360)**	-	-	360	9,229	50,852	-	-
General and admin expense	**(2,865)**	(1,575)	(2,486)	(3,361)	(3,682)	(2,275)	(2,359)	(1,593)
Share-based payments	**(376)**	(315)	(1,151)	(222)	(549)	(212)	(176)	(1,401)
Depreciation and amortization	**(58)**	(61)	(59)	(58)	(54)	(55)	(55)	(54)
Credit loss provision	**(305)**	(644)	(11,568)	(1,421)	127	(1,492)	(1,897)	(611)
Finance cost	**(9,560)**	(8,961)	(9,748)	(9,700)	(9,686)	(11,809)	(8,972)	(9,060)
Finance income	**1,691**	1,774	2,042	1,923	1,848	2,601	435	139
Income tax expense	**(100)**	(15)	(30)	(20)	(80)	(42)	(14)	(19)
Net (loss) / income	**(904)**	**(8,202)**	**(27,199)**	**9,599**	**12,347**	**66,428**	**21,170**	**15,080**
EBITDAX	**12,839**	5,834	(4,876)	30,227	39,624	32,626	37,339	30,471
Net (loss)/income in $ per share								
- Basic	-	(0.003)	(0.010)	0.003	0.004	0.024	0.009	0.007
- Diluted	-	(0.003)	(0.009)	0.003	0.004	0.023	0.008	0.006

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

Summary of Principal Changes in the Fourth Quarter Financial Information

The $0.9 million net loss generated in Q4 2023 was primarily driven by the ITP shutdown, which resulted in lost revenue. The income and expenses in the fourth quarter are explained in more detail in the following sections.

[5] Non-IFRS Accounting Standards measures do not have any standardized meaning prescribed by IFRS Accounting Standards and are therefore unlikely to be comparable to similar measures presented by other public companies. Non-IFRS Accounting Standards measures should not be considered in isolation or as a substitute for measures prepared in accordance with IFRS Accounting Standards. The Company uses non-IFRS Accounting Standards 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,		
	2023	**2022**	**2021**
Revenues	**82,886**	176,665	102,323
Cost of goods sold	**(52,363)**	(70,724)	(52,434)
Bargain purchase gain on acquisition	**-**	60,081	-
General and administrative expense	**(10,287)**	(9,909)	(7,836)
Share-based payments expense	**(2,064)**	(2,338)	(1,627)
Depreciation and amortization expense	**(236)**	(218)	(219)
Impairment	**-**	-	-
Credit loss provision	**(13,938)**	(3,873)	2,038
Finance income	**7,393**	4,909	844
Finance cost	**(37,932)**	(39,479)	(29,627)
Income tax expense	**(165)**	(155)	(79)
(Loss) / income for the year	**(26,706)**	**114,959**	**13,383**
(Loss) / income in $ per share:			
Basic	(0.01)	0.05	0.01
Diluted	(0.01)	0.04	0.01

	As at December 31,		
Financial position – net book value of principal items	**2023**	**2022**	**2021**
Property plant & equipment	**302,192**	302,384	138,971
Loans and receivables	**74,334**	88,279	48,249
Cash and other assets	**73,816**	107,819	181,151
Other non-current assets	**69**	211	94
Total assets	**450,411**	**498,693**	**368,465**
Net borrowings	**(238,746)**	(258,943)	(280,999)
Other liabilities	**(72,234)**	(76,056)	(68,928)
Shareholders' equity	**139,431**	**163,694**	**18,538**
Common shares outstanding (x 1,000)	**2,824,362**	2,808,851	2,215,350

Summary of Principal Changes in Annual Financial Information

The net loss in 2023 of $26.7 million is attributable to a number of key drivers:

- The ITP shutdown resulting in reduced oil sales at significantly lower oil prices;
- A higher credit loss provision due to the uncertainty in timing of receipt of past receivables; and
- One-off general and administrative costs offsetting corporate cost reductions.

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

EBITDAX – Non-IFRS Accounting Standards Measures

	Three months ended December 31		Year ended December 31	
USD Thousands	2023	2022	2023	2022
Revenues	20,320	53,173	82,886	176,665
Lifting costs	(4,169)	(9,242)	(26,191)	(24,150)
Other costs of production	(71)	(76)	(320)	(208)
General and administrative expense	(2,865)	(3,682)	(10,287)	(9,909)
Share-based payments	(376)	(549)	(2,064)	(2,338)
EBITDAX	**12,839**	**39,624**	**44,024**	**140,060**

Gross margin on oil sales

	Three months ended December 31		Year ended December 31	
USD Thousands	2023	2022	2023	2022
Revenue from oil sales	20,320	53,173	82,886	176,665
Lifting costs	(4,169)	(9,242)	(26,191)	(24,150)
Other costs of production	(71)	(76)	(320)	(208)
Depletion costs	(5,051)	(28,661)	(25,852)	(46,366)
Cost of goods sold	**(9,291)**	**(37,979)**	**(52,363)**	**(70,724)**
Gross margin on oil sales	**11,029**	**15,194**	**30,523**	**105,941**

Revenue from oil sales relates to the Company's entitlement share of oil sales from the Atrush and Sarsang blocks (Sarsang sales are included from September 15, 2022). The decrease in revenues in 2023 compared to 2022 was driven by the ITP closure at the end of Q1 2023. The revenue of $20.3 million in Q4 2023 relates to the local oil sales from Sarsang and Atrush. The oil prices for local sales are in line with the local market and at a significant discount to international benchmark prices. The average net oil price for 2023 is $48.87 per barrel compared to the 2022 average net oil price of $79.14 per barrel after deducting the discount for oil quality and transportation costs.

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 lower in Q4 2023 compared to Q4 2022 due to the ITP shutdown. Lifting costs for the full-year of 2023 are higher due to the inclusion of Sarsang for the full-year, partially offset by reduced lifting costs due to the ITP shutdown.

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

Depletion costs have significantly decreased in 2023 due to no depletion costs for Atrush being recorded when the asset was not producing and due to reduced sales. The depletion costs calculation is based on entitlement barrels sold.

Gross margin on oil sales was significantly lower in 2023 mainly due to the ITP being closed throughout most of the year and average oil prices paid for local sales being significantly lower than international prices.

General and administrative expense

USD Thousands	Three months ended December 31 2023	Three months ended December 31 2022	Year ended December 31 2023	Year ended December 31 2022
Salaries and benefits	1,984	2,592	5,852	5,072
Legal, accounting and audit fees	464	276	1,346	966
Advisory and consulting fees	179	295	1,503	1,965
General and other office expenses	176	313	738	844
Listing costs and investor relations	34	40	351	413
Travel expenses	28	125	280	408
Corporate sponsorship	-	41	217	241
General and administrative expense	**2,865**	**3,682**	**10,287**	**9,909**
Non-recurring costs	314	284	2,563	1,428
Adjusted G&A	**2,551**	**3,398**	**7,724**	**8,481**

The decrease in general and administrative expenses in Q4 2023 compared to Q4 2022 is mainly due to savings from cost-reduction initiatives partially offset by one-off legal fees related to the Atrush acquisition. The increase in 2023 compared to 2022 is mainly due to the inclusion of Sarsang, one-off costs relating to the departure of the former CEO and one-off business development legal and consulting fees. The adjusted G&A shows the impact of the non-recurring costs on the quarter and full-year and more accurately reflects the benefits of the Company's ongoing cost reduction efforts.

Share-based payments expense

USD Thousands	Three months ended December 31 2023	Three months ended December 31 2022	Year ended December 31 2023	Year ended December 31 2022
Option expense	248	279	1,331	1,039
RSU expense	177	154	953	951
DSU (recovery) / expense	(49)	116	(220)	348
Total share-based payments	**376**	**549**	**2,064**	**2,338**

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, 2023, there were 80,863,000 outstanding stock options in total (December 31, 2022: 82,740,000), 24,600,002 RSUs (December 31, 2022: 22,123,339) granted to certain senior officers and other eligible persons of the Company and 16,584,721 DSUs (December 31, 2022: 11,814,611) granted to ShaMaran's non-executive directors. DSUs are revalued at each quarter-end, resulting in an increase or decrease depending on the share price. The decrease in these costs during 2023 versus 2022 is mainly due to the reduction in the share price impacting the value of the DSU liability.

Also refer to the discussion under the "Outstanding Share Data, Share Units and Stock Options" section below.

Credit loss provision

USD Thousands	Three months ended December 31 2023	2022	Year ended December 31 2023	2022
Credit loss provision	305	(127)	13,938	3,873

ShaMaran has reassessed the expected credit losses of accounts receivable owed from the KRG at the end of the year. The Company remains engaged with the KRG regarding the recovery of these amounts, but timing is uncertain. Therefore, the Company has reassessed the credit loss provision and has compared the carrying value of the relevant trade receivables with the present value of the estimated future cash flows based on reasonable scenarios and has weighted the expected recovery of these outcomes according to the relative probability. A relative discount rate has been applied to reflect counterparty discounting and credit risk to provide a reasonable approximation of the fair value of these trade receivables at December 31, 2023. The result of the Company's assessment under IFRS 9-*Financial Instruments* is a further $305 thousand adjustment to these trade receivables in the fourth quarter included in the statement of comprehensive income. The Company expects to recover the full nominal value of such receivables, but a provision remains to reflect credit risk.

Finance income

USD Thousands	Three months ended December 31 2023	2022	Year ended December 31 2023	2022
Interest on Company-owned bonds	852	921	3,580	2,367
Interest on bank deposits	839	927	3,813	1,404
Net gain from settlement of debt	-	-	-	1,138
Total finance income	**1,691**	**1,848**	**7,393**	**4,909**

Finance cost

USD Thousands	Three months ended December 31 2023	2022	Year ended December 31 2023	2022
Interest/amortization charges on bonds	9,418	9,885	38,707	35,544
Amortization of the related-party loan	550	557	2,128	2,662
Re-measurement of bond debt and Nemesia loan	-	-	-	2,465
Amortization of 2023 Bond transaction costs	-	-	-	1,223
Total borrowing costs	**9,968**	**10,442**	**40,835**	**41,894**
Foreign exchange loss	252	114	251	66
Re-measurement of contingent consideration	98	(101)	43	(101)
Other interest expenses	69	-	69	35
Lease interest expense	3	1	11	13
Unwinding discount on decommissioning provision	(6)	(138)	(76)	(964)
Total finance costs before borrowing costs capitalized	**10,384**	**10,318**	**41,133**	**40,943**
Borrowing costs capitalized	(824)	(632)	(3,201)	(1,464)
Total finance cost	**9,560**	**9,686**	**37,932**	**39,479**

Interest and amortization charges during 2023 relate to the Company's $300 million bond, which has a 4-year tenor due July 2025 and a 12% fixed, semi-annual coupon (the "2025 Bond"). The 2025 Bond was reduced to $277.5 million at the end of July 2023 when the first $22.5 million amortization payment was made. In 2022, the Company paid interest on the initial 2025 Bond issue amount of $111.5 million plus interest on $175 million of the ShaMaran bond issued in 2018 that carried a 12% fixed, semi-annual coupon and was due to mature on July 5, 2023 (the "2023 Bond").

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

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

Capital Expenditures

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

The net book value of PP&E is principally comprised of development costs related to the Company's share of the Atrush PSC and the fair value of the Company's share of the Sarsang PSC 2P reserves as estimated by the Company's independent qualified reserves evaluator, McDaniel, plus development costs related to the Company's share of the Sarsang PSC since the acquisition. The movements in PP&E are explained below:

	Year ended December 31, 2023			Year ended December 31, 2022		
USD Thousands	Oil and gas assets	Office equipment	Total	Oil and gas assets	Office equipment	Total
Opening net book value	**302,217**	**167**	**302,384**	**138,804**	**167**	**138,971**
Additions	25,725	57	25,782	31,291	67	31,358
Sarsang Acquisition	-	-	-	178,487	-	178,487
Depletion and depreciation expense	(25,851)	(123)	(25,974)	(46,365)	(67)	(46,432)
Net book value	**302,091**	**101**	**302,192**	**302,217**	**167**	**302,384**

During 2023, movements in PP&E were comprised of general additions of $25.8 million (2022: $31.4 million general additions plus $178.5 million Sarsang Acquisition), which included capitalized borrowing costs of $3.2 million (2022: $1.5 million), net of depletion and depreciation expense of $26.0 million (2022: $46.4 million) that resulted in a net decrease to PP&E assets of $0.2 million. Most of the PP&E additions were carried out in Q1 2023, prior to the ITP closure, as the level of capital expenditure has been significantly reduced since then.

Due to the closure of the ITP in 2023, the Company conducted impairment tests as of the reporting date to assess if the net book value of its oil and gas assets was fully recoverable. The Company has identified two separate Cash Generating Units ("CGUs"), being its Atrush and Sarsang assets. The impairment tests were based on the McDaniel production and cost profiles related to 2P reserves, the 2024 operating budgets, a future cost inflation factor of 2% per annum and a discount rate of 17% to calculate the net present value at December 31, 2023, of the Company's projected share of future cash flows from the Atrush and Sarsang 2P reserves. The assessment concluded that there is no need for any impairment to PP&E.

The price assumptions used for the impairment assessment performed at December 31, 2023, are based on current local sales prices for 2024. Going forward, the sales prices use average Brent oil price assumptions based on the McDaniel forecast less an estimated discount to Brent based on past precedent.

Financial Position and Liquidity

Accounts receivable

At December 31, 2023, the Company had receivables outstanding as below:

	For the year ended December 31	
USD Thousands	2023	2022
Accounts receivable on oil sales	95,474	95,481
Credit Loss Provision – transportation costs	(3,695)	(3,695)
Credit Loss Provision	(17,445)	(3,507)
Total accounts receivable	**74,334**	**88,279**

The accounts receivable on oil sales at December 31, 2023, mainly relates to deliveries from October 2022 through March 2023 on the basis of the KBT pricing mechanism.

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

As discussed earlier in the section "Credit loss provision," the $17.4 million provision at December 31, 2023, relates to the Company's assessment of the trade receivables given the uncertainty of the timing of recovery of these receivables.

Borrowings

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

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

During 2021 and 2022, the Company purchased its own bonds in the market at commercially attractive rates. At December 31, 2023, the Company held $28.4 million of its own 2025 Bond (2022 year-end: $30.7 million). After the balance sheet date, $22.5 million of these bonds were retired in January 2024 to satisfy the amortization obligation.

On July 26, 2023, the Company announced that it had requested and received bondholder approval for a waiver to release cash from the DSRA. The waiver allowed the Company to use restricted cash in the DSRA to pay the bond interest and amortization obligations due on July 30, 2023. At December 31, 2023, the outstanding principal of the 2025 Bond was $277.5 million and $22.8 million of restricted cash was held in the DSRA earning interest.

The movements in borrowings are explained below:

	For the year ended December 31	
USD Thousands	2023	2022
Opening balance	**269,145**	**296,839**
Interest / amortization charges	38,707	35,544
Own bond amortization received / (purchases)	2,303	(27,717)
2025 Bond issued	-	188,528
Amortization of 2023 Bond transaction costs	-	2,486
2025 Bond discount	-	(4,092)
2025 Bond transaction costs	-	(6,261)
Bond amortization	(22,500)	(175,000)
Payments to bondholders – interest	(30,400)	(41,182)
Ending balance	**257,255**	**269,145**
Non-current portion – net borrowings	193,746	236,443
Current portion – amortization instalments	45,000	22,500
Current portion – accrued bond interest expense	18,509	10,202

Loan from related-party

In July 2020, the Company announced a full drawdown of Nemesia's liquidity guarantee for $22.8 million followed by the full and final discharge of this liquidity guarantee by the Bond Trustee. In exchange for the drawdown of funds, the Company was required to issue monthly to Nemesia 50,000 ShaMaran shares for each $500 thousand drawn-down and outstanding until the drawn amount was repaid in full together with interest. In addition, the Company was required to accrue interest on the amount due to Nemesia at an annual rate of 5%.

After closing of the Sarsang Acquisition and the bond conversion on September 27, 2022, $7.2 million of the existing $22.8 million debt was converted into the new 2025 Bond. The balance of $15.6 million remains as the Nemesia loan with new terms. Repayment of the loan is due on January 30, 2026, six months after maturity of the 2025 Bond. Claim for repayment is subordinated to all obligations under the Company's 2025 Bond terms. The interest-rate on the Nemesia loan was adjusted to match the interest-rate on the 2025 Bond of 12% (payable in cash semi-annually) plus an additional interest amount of 2% per annum payable in kind, and the monthly common share allotment to Nemesia was eliminated. Following the amendments described above, the Nemesia loan accounting was changed accordingly.

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

	For the year ended December 31	
USD Thousands	2023	2022
Opening balance	**16,175**	**21,748**
Amortization	2,129	2,662
Recognize Nemesia loan on new terms	-	15,600
Derecognize Nemesia loan on old terms	-	(23,835)
Payment to Nemesia – Interest	(1,581)	-
Ending balance	**16,723**	**16,175**

Liquidity and Capital Resources

	For the year ended December 31	
USD Thousands	2023	2022
Selected liquidity indicators		
Cash flow from operations	40,482	105,282
Working capital	41,027	147,882
Cash in bank	71,722	105,730

Cash flow from operations of $40.5 million for the year ended December 31, 2023, is down by $64.8 million from $105.3 million reported in the same period of 2022, principally due to the delay in oil sales payments for the period October 2022 to March 2023 and reduced revenues since the ITP closure.

Working capital at December 31, 2023, was positive $41.0 million compared to positive $147.9 million at December 31, 2022. The decrease in working capital since December 31, 2022, is principally due to part of the Company's receivables now being classified as a non-current asset due to the uncertainty of timing of recovery and the decrease in the cash balance.

Cash in bank decreased by $34.0 million in 2023, as compared to a decrease of $66.0 million in 2022. The main components of the movement in funds were as follows:

- The operating activities of the Company in 2023 resulted in an increase of $40.5 million in the cash position (2022: increase of $105.3 million), as explained above.
- Net cash out to investing activities in 2023 was $22.3 million (2022: cash outflows of $123.7 million). Cash out to investing activities was comprised of $29.0 million for investments in the Atrush and Sarsang development work programs net of cash inflows of $6.7 million for interest received. 2022 cash outflow included the cash purchase of the Sarsang Acquisition of $110.4 million.
- Net cash outflows to financing activities in 2023 were $52.2 million (2022: cash outflows to $47.5 million) and comprised of $30.4 million of interest payments to ShaMaran bondholders, $1.6 million of interest payments to Nemesia for the loan and $20.2 million of 2025 Bond amortization net payment.

The 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

USD Thousands	Purchase of services during the year		Amounts owing at the balance sheet dates	
	2023	2022	2023	2022
Nemesia	2,128	2,435	1,123	568
Lundin Foundation	65	-	-	-
Orrön Energy AB	33	-	-	-
Namdo Management Services Ltd.	31	32	-	-
International Petroleum Corp.	5	-	31	-
Total	**2,262**	**2,467**	**1,154**	**568**

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

Lundin Foundation is a non-profit organization, of which the Company is a member, that provides services for Lundin Group companies.

Namdo Management Services Ltd, Orrön Energy AB and International Petroleum Corp are companies affiliated with shareholders of the Company and have provided corporate administrative support services to the Company.

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

Outstanding Share Data, Share Units and Stock Options

Common shares

The Company had 2,824,362,157 outstanding shares at December 31, 2023 (2,946,409,879 shares fully diluted) and 2,824,362,157 outstanding shares at the date of this MD&A.

Details of share issuance in 2023 are as follows:

- 11,880,002 RSUs vested in March 2023 in accordance with the Company's Share Unit Plan and were issued to grantees. The carrying value of the RSUs has been determined based on the Company's average closing share price over the 5-day period prior to the vesting date.
- 3,074,251 RSUs vested in May 2023 in accordance with the Company's Share Unit Plan for employees end of service and were issued to the grantees. The carrying value of the RSUs has been determined based on the Company's average closing share price over the 5-day period prior to the vesting date.
- 557,000 stock options were exercised in accordance with the Company's plan and issued to a grantee.

Share units and Stock options

ShaMaran has established a deferred share unit plan ("the "DSU Plan"), a share unit plan (the "Share Unit Plan") and a stock option plan (the "Stock Option Plan") whereby the Company may, from time to time, grant up to a total of 10% of the issued share capital to directors, officers, employees or consultants. At December 31, 2023, a total of 122,047,723 shares, 4% of the issued share capital, had been granted of the possible 282,436,215 shares that could be granted under the plans. Under the plans, the Company may also grant performance share units ("PSUs"), RSUs or DSUs. As at December 31, 2023, and the date of this MD&A, there are no PSUs outstanding. The DSU Plan exists for non-executive directors of the Company.

During 2023, the Company granted:

(i) 19,750,000 RSUs to certain senior officers and other eligible persons of the Company at a grant date share price of CAD $0.063. In 2023, a total of 14,954,253 RSUs vested, and the same quantity of shares were issued to Share Unit Plan participants, 2,319,084 RSUs were forfeited or expired due to the end of service of Share Unit Plan participants. The Statement of Comprehensive Income includes RSU-related charges of $953 thousand (2022: $951 thousand) for the year 2023.

(ii) 4,770,110 of DSUs to non-executive directors at a grant share price of CAD $0.05. The Statement of Comprehensive Income includes DSU-related charges of $(220) thousand for the twelve months of 2023 (2022: $348 thousand). The carrying amount of the DSU liability at December 31, 2023, is $565 thousand.

(iii) 49,400,000 stock options to certain senior officers and other eligible persons of the Company at a strike price of CAD $0.063. In 2023, a total of 50,720,000 were forfeited due to the end of service of grantees. The Statement of Comprehensive Income includes option-related charges of $1,331 thousand (2022: $1,039 thousand) for the year 2023.

At December 31, 2023, there were 80,863,000 stock options outstanding under the Company's employee incentive Stock Option Plan, which represents 2.9% of the total shares outstanding at December 31, 2023. In the twelve months of 2023, 557,000 stock options were exercised (year 2022: nil).

The Company has no warrants outstanding.

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

	Number of stock options outstanding	Number of RSUs outstanding	Number of DSUs outstanding
At December 31, 2022	**82,740,000**	**22,123,339**	**11,814,611**
Granted in the year	49,400,000	19,750,000	4,770,110
Expired/forfeited in the year	(50,720,000)	(2,319,084)	-
Stock options exercised	(557,000)	-	-
RSUs vested	-	(14,954,253)	-
At December 31, 2023	**80,863,000**	**24,600,002**	**16,584,721**
Quantities vested and unexercised:			
At December 31, 2022	63,939,995	-	11,814,611
At December 31, 2023	80,863,000	-	16,584,721

Contractual Obligations and Commitments

Production Sharing Contracts

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

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

	For the year ended December 31,				
USD Thousands	2024	2025	2026	Thereafter	Total
Atrush and Sarsang block development and PSC	31,593	166	166	992	**32,917**
Sarsang contingent consideration	-	-	-	15,000	**15,000**
Corporate office and other	68	-	-	-	**68**
Total commitments	**31,661**	**166**	**166**	**15,992**	**47,985**

Amounts relating to Atrush and Sarsang block developments represent the Company's unfunded paying interest share of the proposed 2024 work program and other obligations under the PSCs. Spending has been reduced by the operators of both blocks due to the closure of the ITP in March 2023.

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

Critical Accounting Policies and Estimates

The Financial Statements of the Company have been prepared by Management using IFRS Accounting Standards. 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 Accounting Standards or interpretations that have been issued effective for financial years beginning on or after January 1, 2023, that would have a material impact on the Company's Financial Statements.

New Accounting Standards Issued but not yet applied

There are no new accounting standards that will come into effect for annual periods beginning on or after January 1, 2024, 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 that 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 exploration and evaluation costs 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 CGU cost pools based on their ability to generate largely independent cash flows. The recoverable amount of a CGU is the greater of its fair value less costs to sell and its value in use. Fair value is determined to be the amount for which the asset could be sold in an arm's length transaction. Value in use is determined by estimating the present value of the future net cash flows expected to be derived from the continued use of the asset or CGU.

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

In 2023, all of the Company's development activities were 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, 2023. The conclusions of this evaluation have been presented in a Detailed Property Report that has been prepared in accordance with standards set out in the Canadian National Instrument NI 51-101 Standards for Oil and Gas Activities ("NI 51-101") and COGEH Handbook ("COGEH").

The Company's crude oil reserves as at December 31, 2023, were based on the Company's 27.6% working interest in the Atrush Block and 18% working interest (22.5% paying interest) in the Sarsang Block and estimated to be as follows:

Company estimated reserves
As at December 31, 2023

	Proved Developed	Proved Undeveloped	**Total Proved**	Probable	**Total Proved & Probable**	Possible	**Total Proved, Probable & Possible**
Light/Medium Oil (Mbbl) [1]							
Gross [2]	21,253	10,280	**31,533**	26,485	**58,018**	35,651	**93,670**
Net [3]	11,280	4,276	**15,556**	7,914	**23,470**	9,312	**32,782**
Heavy Oil (Mbbl) [1]							
Gross [2]	2,919	1,468	**4,387**	3,009	**7,396**	3,932	**11,328**
Net [3]	1,607	668	**2,275**	1,040	**3,314**	1,280	**4,594**
Total Oil (Mbbl)							
Gross	24,172	11,748	**35,920**	29,494	**65,414**	39,583	**104,998**
Net	12,887	4,944	**17,831**	8,954	**26,784**	10,592	**37,376**

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 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 revenues by adjusting for the tax rate.

The Company's crude oil resources as at December 31, 2023, were estimated to be as follows:

Company estimated contingent resources [1] [2] [4] [5]
As at December 31, 2023

	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)	-	-	-	-
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 On Hold" and "Development Not Viable".

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 that 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, such as 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 projects are 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 resources. There is no certainty that the Company will be able to commercially produce any portion of its contingent 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 that 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 loans, 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 receivables that 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 that 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 that 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 that 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. During the year, the Company received oil sales revenues at a negotiated local price that was considerably less than would otherwise have been received if the ITP was available for export and sales were made at least at the KBT price. It is unclear when the ITP will re-open and a payment mechanism agreed so that export sales can resume at international pricing.

The Company does not hedge against commodity price risk.

Foreign currency risk is a risk since all of the Company's revenues and most of its purchases are denominated in USD, and therefore the Company maintains a substantial portion of its cash and cash equivalents in the currency. 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, such as 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 small amounts of foreign currencies at any point in time and because its volume of transactions in foreign currencies is relatively low. Therefore, the Company does not hedge its exposure to changes in foreign currency exchange rates.

Interest-rate risk is a risk due to the 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 and a related-party loan at the corporate level. However, the Company is not exposed to interest-rate risks associated with its 2025 Bond or the Nemesia loan as these interest rates are 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 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 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. Like 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 continues to develop projects, 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 forecasted and actual cash flows. Annual capital expenditure budgets are prepared, monitored and updated as necessary. In addition, the Company requires authorizations for expenditures on both of its non-operating projects to further manage capital expenditures.

RISK AND UNCERTAINTIES

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

Implementation of the 2023-2025 Federal Budget Law ("Federal Budget Law")
As previously noted in the Company's Q2 2023 MD&A, a three-year federal budget law was enacted in 2023, but provisions relating to the KRG's monthly budget allocations have not yet been implemented. The legal actions taken by the KRG have not resolved the impasse over allocating and paying federal budget allocations to the KRG. As at the date of this MD&A, there have been numerous public reports that discussions to agree on the implementation of the Federal Budget Law are on-going between the KRG and GOI, and the KRG has in October 2023 delivered to officials in Baghdad the KRG's first-half 2023 accounting of revenues and expenditures in order to assist in the implementation of the monthly budget allocations from the GOI. It was expected that the passage of the Federal Budget Law, including a production commitment from the KRG, would enable regular monthly budget transfers from Iraq to the KRG, as well as normalization of relations between the region and the GOI. As at the date of this MD&A, these remain uncertainties. There continues to be no guarantee, however, that these budget allocations, even if received in full and on time, would be sufficient to cover regular payments per the PSC terms and of the outstanding payables to IOCs.

Continuing export pipeline shutdown
The ITP was closed on March 25, 2023, and remains shutdown as at the date of this MD&A. Discussions continue among the relevant parties to resume oil exports via the ITP as soon as possible. In response to the situation, together with our operating partners in the Atrush and Sarsang blocks, we are continuing to take actions to preserve liquidity through significant deferral of expenditures across the business (see "Business Outlook"). The interruption to production and payments represents a continuing risk to the Company's liquidity position. In early October 2023, Turkish officials notified Iraqi officials that the ITP was technically ready for export of Iraq's oil production (including from the KRG). Despite various public statements that ITP exports will be restarting, there can be no certainty when exports and payments will resume, and the Company is continually monitoring this matter.

Federal Supreme Court of Iraq ruling
As previously noted, the Federal Supreme Court of Iraq ruled in 2022 that the Kurdistan Region's 2007 Oil and Gas Law is unconstitutional. The ruling also instructed the Ministry of Oil ("MoO") to take steps to implement the court's decision, and court proceedings to invalidate the production sharing contracts of certain IOC's were launched in the Karkah Commercial Court in Baghdad. Neither the Company nor any of its subsidiaries has at the date of this MD&A been served any court documentation regarding these actions by the MoO, and it is the belief of the Company that no judgment in these cases has been enforced. It is also the understanding of the Company that there has been dialogue between the KRG and the MoO on this issue, and, as at the date of the MD&A, any enforcement of any rulings in this matter has been frozen. 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. The Company continues to monitor the situation closely.

Russia-Ukraine and Gaza-Israel conflicts
The conflict between Russia and Ukraine continues to exacerbate the global oil market supply shortage. The profound effects of this crisis are likely to be long lasting as consumers and producers alike reshape their thinking around access to resources and security of supply. The Company notes the implications for commodity prices and potential interruptions of supply chains and third-party services from this ongoing conflict. The Company is also monitoring international sanctions and trade control legislation in order to mitigate any potential impact on the Company's operations. Upon resumption of KRG purchases of oil from the Atrush and Sarsang blocks, the oil would be sold at Ceyhan primarily in the Mediterranean crude market, and as such the Russia-Ukraine conflict could indirectly impact the Company's results. Russian sales of heavily discounted Urals crude barrels in the Mediterranean crude market resulted in lower realized prices for the KRG's crude, an impact that may continue in the future so long as KBT pricing is applied. At the date of this MD&A, it appears that the State Organization for Marketing Oil ("SOMO") may take over the sale of KRI oil production delivered at Ceyhan with Kirkuk blend pricing, but the Russia-Ukraine conflict may continue to impact pricing.

The Gaza-Israel conflict has not appeared yet to have any impact on the Company's operations in KRI, nor has it as at the date of the MD&A had any direct impact on local sales pricing of Kurdistan oil.

For more information on risk factors that may affect the Company's business, refer also to the discussion of risks under the "*Reserves and Resources*" and "*Financial Instruments*" sections of this MD&A, as well as to the "*Risk Factors*" section of the Company's 2022 Annual Information Form.

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 Company 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 Accounting Standards. 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, 2023, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

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", "assume", "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 that 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, 2023, and have been prepared and audited in accordance with 51-101 and the COGEH. 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.

Contingent resources are further categorised according to the level of certainty associated with the estimates and may be sub-classified based on a project maturity and/or characterised by their economic status. There are three classifications of contingent resources: low estimate, best estimate and high estimate. Best estimate is a classification of estimated resources described in the COGEH as the best estimate of the quantity that will be actually recovered; it is equally likely that the actual remaining quantities recovered will be greater or less than the best estimate. If probabilistic methods are used, there should be at least a 50 percent probability that the quantities actually recovered will equal or exceed the best estimate.

The project maturity subclasses include development pending, development on hold, development unclarified and development not viable. The contingent resources disclosed in this MD&A are classified as either development on hold or development not viable. Development on hold is defined as a contingent resource where there is a reasonable chance of development, but there are major non-technical contingencies to be resolved that are usually beyond the control of the operator. Development not viable is defined as a contingent resource where no further data acquisition or evaluation is currently planned and hence there is a low chance of development.

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.

This report contains an oil and gas metric, being 2P reserves replacement ratio, which does not have a standardized meaning or a standard method of calculation and therefore such measure may not be comparable to similar measures used by other companies. This metric is commonly used in the oil and gas industry and has been included herein to provide readers with an additional measure to evaluate the ShaMaran's performance; however, such measure is not a reliable indicator of the future performance of ShaMaran and future performance may not compare to the performance in previous periods.

ADDITIONAL INFORMATION

Additional information related to the Company, including its 2022 Annual Information Form, is available on SEDAR+ at www.sedarplus.ca under the Company's profile and on the Company's website at www.shamaranpetroleum.com.

ShaMaran plans to publish its financial statements for the three months ending March 31, 2024, on May 8, 2024.

OTHER SUPPLEMENTARY INFORMATION

Abbreviations

CAD	Canadian dollar
CHF	Swiss franc
EUR	Euro
USD	US dollar

Oil-related terms and measurements

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

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, 2023 and 2022, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS Accounting Standards).

What we have audited

The Company's consolidated financial statements comprise:

- the consolidated statements of comprehensive income for the years ended December 31, 2023 and 2022;
- the consolidated balance sheets as at December 31, 2023 and 2022;
- 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, comprising material accounting policy information 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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Material Uncertainty Related to Going Concern

We draw attention to note 2 in the consolidated financial statements, which describes events or conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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, 2023. 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. In addition to the matter described in the *Material uncertainty related to going concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

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 to the consolidated financial statements.* The Company had $302.2 million of net PP&E in the Atrush and Sarsang blocks as at December 31, 2023. Depletion expense for these assets was $25.8 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	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:

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 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 considered this 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.

  - 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:
    - 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.

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 Accounting Standards, 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

Dmytro Gotra

March 6, 2024

Consolidated Statement of Comprehensive Income
For the year ended December 31, 2023

Expressed in thousands of United States dollars	Note	For the year ended December 31, 2023	2022
Revenues	*6*	**82,886**	**176,665**
Cost of goods sold:			
Lifting costs	*7*	(26,191)	(24,150)
Other costs of production	*7*	(320)	(208)
Depletion	*7*	(25,852)	(46,366)
Gross margin on oil sales		**30,523**	**105,941**
Depreciation and amortization expense		(236)	(218)
Share-based payments expense	*20*	(2,064)	(2,338)
General and administrative expense	*8*	(10,287)	(9,909)
Credit loss provision	*14*	(13,938)	(3,873)
Income from operating activities		**3,998**	**89,603**
Bargain purchase gain on acquisition	*9*	**-**	**60,081**
Finance income	*10*	7,393	4,909
Finance cost	*11*	(37,932)	(39,479)
Net finance cost		**(30,539)**	**(34,570)**
(Loss) / Income before income tax expense		**(26,541)**	**115,114**
Income tax expense	*12*	(165)	(155)
(Loss) / Income for the period		**(26,706)**	**114,959**
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Re-measurements on defined pension plan		(47)	549
Items that may be reclassified to profit or loss:			
Currency translation differences		184	41
Total other comprehensive income		**137**	**590**
Total comprehensive (loss) / income for the period		**(26,569)**	**115,549**
(Loss) / income in dollars per share:			
Basic		(0.01)	0.05
Diluted		(0.01)	0.04

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

Consolidated Balance Sheet
As at December 31, 2023

Expressed in thousands of United States dollars	Note	2023	2022
ASSETS			
Non-current assets			
Property, plant and equipment	*13*	302,192	302,384
Accounts receivable	*14*	35,421	-
Other non-current assets		69	211
		337,682	**302,595**
Current assets			
Cash and cash equivalents, unrestricted		48,881	69,273
Accounts receivable	*14*	38,913	88,279
Cash and cash equivalents, restricted	*16*	22,841	36,457
Other current assets		2,094	2,089
		112,729	**196,098**
TOTAL ASSETS		**450,411**	**498,693**
LIABILITIES			
Non-current liabilities			
Borrowings	*16*	193,746	236,443
Provisions	*18*	27,839	32,926
Loan from related party	*17*	16,723	16,175
Cash-settled deferred share units	*20*	565	785
Other non-current liabilities		405	454
		239,278	**286,783**
Current liabilities			
Borrowings	*16*	45,000	22,500
Accrued interest expense on bonds	*16*	18,509	10,202
Accounts payable and accrued expenses	*15*	8,047	15,286
Other current liabilities		146	228
		71,702	**48,216**
EQUITY			
Share capital	*19*	671,136	670,250
Share-based payments reserve		12,041	10,621
Cumulative translation adjustment		205	21
Accumulated deficit		(543,951)	(517,198)
		139,431	**163,694**
TOTAL EQUITY AND LIABILITIES		**450,411**	**498,693**

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, 2023

		For the year ended December 31,	
Expressed in thousands of United States dollars	Note	**2023**	**2022**
Operating activities			
(Loss) / Income for the period		**(26,706)**	**114,959**
Adjustments for non-cash related items:			
Borrowing costs – net of amount capitalized		37,758	40,329
Depreciation, depletion and amortization expense		26,088	46,584
Share-based payment expense		2,026	2,250
Foreign exchange loss	*11*	251	66
Net gain from settlement of debt	*10*	-	(1,138)
Bargain purchase gain on Sarsang acquisition	*9*	-	(60,081)
Re-measurements on defined pension plan		(47)	549
Unwinding discount on decommissioning provision	*18*	(76)	(964)
Interest income		(7,393)	(3,771)
Changes in accounts receivable on oil sales		13,945	(48,843)
Changes in current tax liabilities		(4)	82
Changes in other current assets		(5)	312
Changes in pension liability		(25)	(598)
Changes in accounts payable and accrued expenses		(5,330)	15,547
Net cash inflows from operating activities		**40,482**	**105,283**
Investing activities			
Interest received on cash deposits		6,714	3,771
Loans – payments received		-	8,813
Purchase of acquisition net of cash received		(951)	(110,437)
Purchase of intangible assets		(43)	(2)
Purchase of property, plant and equipment		(27,997)	(25,839)
Net cash outflows to investing activities		**(22,277)**	**(123,694)**
Financing activities			
Own bond amortization received / (purchases)		2,303	(27,456)
Shares issued on Rights Offering		-	29,572
Rights offering transaction costs		-	(2,067)
2025 Bond transaction costs		-	(6,261)
Principal element of lease payments		(77)	(85)
Cash paid out on bond amortization		(22,500)	-
Payments to bondholders and related-party – interest	*16,17*	(31,981)	(41,182)
Net cash outflows to financing activities		**(52,255)**	**(47,479)**
Effect of exchange rate changes on cash and cash equivalents		42	(46)
Change in cash and cash equivalents		**(34,008)**	**(65,936)**
Cash and cash equivalents, beginning of the year		105,730	171,666
Cash and cash equivalents, end of the year*		**71,722**	**105,730**
***Inclusive of restricted cash**		**22,841**	**36,457**

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

Consolidated Statement of Changes in Equity

For the year ended December 31, 2023

Expressed in thousands of United States dollars	Share capital	Share-based payments reserve	Loan Share reserve	Cumulative translation adjustment	Accumulated deficit	Total
Balance at January 1, 2022	**640,521**	**9,446**	**2,490**	**(20)**	**(633,899)**	**18,538**
Total comprehensive income 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 20)	-	1,175	-	-	-	1,175
Loan Shares issued	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**
Total comprehensive income / (loss) for the year:						
Loss for the period	-	-	-	-	(26,706)	(26,706)
Other comprehensive income / (loss)	-	-	-	184	(47)	137
Transactions with owners in their capacity as owners:						
Share-based payments expense (excluding DSU, Note 20)	-	1,420	-	-	-	1,420
Options exercised	38	-	-	-	-	38
RSU Shares issued	848	-	-	-	-	848
	886	1,420	-	184	(26,753)	(24,263)
Balance at December 31, 2023	**671,136**	**12,041**	-	**205**	**(543,951)**	**139,431**

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 1200-1075 West Georgia Street, Vancouver, British Columbia V6E 3C9, Canada. The Company's shares trade on the TSX Venture Exchange in Canada and NASDAQ First North Growth Market in Sweden under the symbol "SNM".

The Company is engaged in the business of oil and gas exploration and production and holds the following interests at December 31, 2023:

- 27.6% non-operated participating interest in the Atrush Block production sharing contract ("Atrush PSC") in the Kurdistan Region of Iraq ("KRI"). The Atrush Block twenty-year development period commenced in Q4 2013 with an automatic right to a five-year extension and the possibility to extend for an additional five years. Oil production on the Atrush Block commenced in Q3 2017. See Note 25 for recent developments on the Atrush interest.

- 18% non-operated participating interest (22.5% paying interest) in the Sarsang production sharing contract ("Sarsang PSC") in the KRI. This interest is consolidated in the Company's financial statements from September 14, 2022, when ShaMaran closed the acquisition of TEPKRI Sarsang A/S, a subsidiary of TotalEnergies S.E. (the "Sarsang Acquisition"). The Sarsang Block twenty-year development period commenced in Q2 2013 with an automatic right to a five-year extension and the possibility to extend for an additional five years. Oil production on the Sarsang Block commenced in Q1 2013.

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 Accounting Standards") 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 Accounting Standards as of March 6, 2024, the date these consolidated financial statements were approved and authorized for issuance by the Company's board of directors ("the Board").

b. Going concern

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

The Company's operations were heavily impacted by the closure of the Iraq-Turkey pipeline ("ITP") on March 25, 2023, a situation that continues as of the date of these financial statements. The Atrush Block had no production from late March 2023 until November 7, 2023, when production restarted at a reduced rate with sales to local refineries. The Sarsang Block, after a brief shut-in during April 2023, continued producing at a reduced rate with additional oil storage capacity secured late in April 2023 and sales to local refineries on an ad hoc basis. Turkish Officials stated that the ITP was ready to resume operations as of October 4, 2023. The readiness and willingness of the Iraqi side to supply oil into the pipeline remains subject to ongoing negotiations between the Government of Iraq, the Kurdistan Regional Government ("KRG") and International Oil Companies ("IOC's") operating in the Kurdistan region.

Since the ITP shutdown, the Company and its operating partners have engaged in a number of initiatives aimed at cutting costs (both operating and capital expenditures) for the Company's two assets. The Company is actively pursuing further cost-reduction initiatives and encouraging its operating partners to increase local sales to improve liquidity. In 2023, the Company successfully engaged with its bondholders to seek additional balance-sheet flexibility given the current pipeline and payment situation, refer to Note 16.

Uncertainty remains regarding the timing and viability of payments by the KRG for accounts receivable from past oil sales. As a result, the Company has adjusted the credit loss provision to reflect this uncertainty, refer to Note 14 for additional information. The Company (together with other IOC's) is still discussing the appropriate recovery mechanism for these receivables with the KRG, but full recovery is expected based on past precedents.

Considering the impact of all of the above, and including the current local sales commitments, the Company expects to have sufficient cash in the next 12 months to fund its costs. However, if the ITP remains closed, local sales do not continue and there is no recovery of the KRG receivables, the Company could require additional liquidity to fund the remaining 2025 Bond obligations as of December 31, 2023, of $58.5 million interest and $277.5 million principal payments. The possibility that the Company's financial resources are potentially insufficient to meet its debt obligations indicates a material uncertainty that may cast significant doubt over the Company's ability to continue as a going concern. Therefore, the Company might be unable to realize its assets and discharge its liabilities in the normal course of business. These consolidated financial statements do not include the adjustments that would result if the Company is unable to continue as a going concern.

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 that 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, refer to Note 9.

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. Property, plant and equipment

Oil and gas assets

Oil and gas assets are comprised of development and production costs for areas where technical feasibility and commercial viability have been established and include any exploration and evaluation 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 ("2P") 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 ("PP&E") 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.

f. Impairment of non-financial assets

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:

- 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.

g. 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 receivables that 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 that 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 that 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 receivables. For its 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.

h. 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 16.

i. 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.

j. Taxation

Income tax expense comprises current income tax and deferred income tax. 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.

k. 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.

l. 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 amortization.

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

m. Pension obligations

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

The pension disclosure has been omitted from these consolidated financial statements as the gross and net balances are not considered material.

n. Share capital

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

o. Share-based payments

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

p. Revenue recognition

Sales of oil production:

Revenue for sales of oil is recognized when the significant risks and rewards of ownership are deemed to have been transferred to the buyer, 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 enroute to the KRG's main export pipeline, or when oil loaded onto a buyer's truck crosses the field boundary.

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 Agreements and the Atrush and Sarsang PSCs that have two principal components: cost oil, the mechanism by which the Company recovers qualifying costs it has incurred in exploring and developing an asset; and profit oil, the mechanism through which profits are shared between the Company, its partners and the KRG. The Company pays capacity building payments on profit oil that 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 revenue for local sales is recognized using the same method.

The Company's oil sales made to the KRG are under the terms of the most recently effective sales agreements that reflect a benchmark rate less estimated oil quality adjustments and all local and international transportation costs. The Company's oil sales made to local buyers are under the terms of a local sales agreement with an agreed oil price and volume nomination. The Company's single performance obligation in its contracts with its customers is the delivery of crude oil at a pre-determined price, and 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.

q. Changes in accounting policies

There are no IFRS Accounting Standards or interpretations that have been issued effective for financial years beginning on or after January 1, 2023, that would have a material impact on the Company's consolidated financial statements.

r. Accounting standards issued but not yet applied

There are no new accounting standards that will come into effect for annual periods beginning on or after January 1, 2024, 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 Accounting Standards.

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

(a) Revenue Recognition

As explained in Note 3(p), the Company recognizes revenues when oil reaches the delivery point 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 and/or local buyers in exchange for oil deliveries.

(b) Oil and gas reserves and resources

The business of the Company is the exploration and development of oil and gas reserves in Kurdistan. Estimates of commercial oil and gas reserves are used in the calculations for impairment, depletion and amortization 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.

(c) Recoverability of receivables

The Company has reported non-current and current receivables comprised of the Company's share of Atrush and Sarsang oil sales to the KRG and local refineries.

The recovery of the receivable amounts from the KRG depends on several factors, including the continued production and exports of oil from the Atrush and Sarang blocks, the financial environment in Kurdistan and global oil prices. Under the terms of the relevant agreements, the receivable balances are recoverable in several ways, including by cash settlement and/or through payment in kind of oil production.

(d) Impairment of assets

IAS 36 Impairment of Assets 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. Refer to Note 13.

Future cash flow estimates that are used to calculate the fair value of the Company's CGUs are based on expectations about future operations, primarily comprising of estimates about production and export volumes, oil prices, operating costs, abandonment costs and capital expenditures. Changes in such estimates could impact recoverable values

(e) Decommissioning and site restoration provisions

The Company recognizes a provision for decommissioning and site restoration costs expected to be incurred to remove and dismantle production, storage and transportation facilities and to carry out site restoration work. The provisions are estimated taking into consideration existing technology and current prices after adjusting for expected inflation and discounted using rates reflecting current market assessments of the time value of money and, where appropriate, the risks specific to the liability. The Company makes an estimate based on its experience and historical data. Refer also to Note 18.

5. Business and geographical segments

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

6. Revenues

As discussed in Note 2b, the ITP has been closed since March 25, 2023. The revenues recorded since this date relate entirely to oil sold to local refineries from the Sarsang Block since April 2023 and from the Atrush Block since November 2023. These sales are *ad hoc* and vary in quantity from week to week but are expected to continue on an *ad hoc* basis until ITP exports resume. Prices for crude oil sales to local refineries are in line with the local market and at a significant discount to international benchmark prices.

Gross oil sales in 2023 were 14.4 million barrels (“MMbbls”) (2022: 17.6 MMbbls), and the Company’s entitlement share was approximately 1.7 MMbbls (2022: 2.2 MMbbls), which was sold with an average netback price of $48.87 per barrel (2022: $79.14). During the first 3 months of 2023, the Company used export prices based on KBT oil price for recording the revenue for both assets with a discount for estimated oil quality adjustments and all local and international transportation costs.

The comparative revenues in 2022 relate mainly to the Company’s entitlement share of oil from Atrush as the Sarsang Acquisition closed on September 14, 2022.

Refer also to Note 14.

7. Cost of goods sold

Lifting costs are comprised of the Company’s share of expenses related to the production of oil from the Atrush 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 2023 lifting costs compared to 2022 was mainly due to the inclusion of Sarsang lifting costs for the full-year, partially offset by reduced lifting costs due to the ITP closure.

Other costs of production include the Company’s share of production bonuses and its share of other costs prescribed under the PSCs.

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. As there was no production in the second or third quarters of 2023 at Atrush, there was no depletion charge recorded during these quarters for the Atrush Block.

Refer also to Notes 6 and 13.

8. General and administrative expense

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

Expressed in thousands of United States dollars

9. Bargain purchase gain on 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. The difference between the total purchase consideration and the net assets and liabilities acquired resulted in a bargain purchase gain of $60.08 million, recognized in the statement of comprehensive income for 2022.

10. Finance income

	For the year ended December 31,	
	2023	**2022**
Interest on Company-owned bonds	3,813	2,367
Interest on bank deposits	3,580	1,404
Net gain on settlement of debt	-	1,138
Total finance income	**7,393**	**4,909**

Refer also to Note 16.

11. Finance cost

	For the year ended December 31,	
	2023	**2022**
Interest/amortization charges on bonds	38,707	35,544
Amortization of the related-party loan	2,128	2,662
Re-measurement of bond debt and Nemesia loan	-	2,465
Amortization of 2023 Bond transaction costs	-	1,223
Total borrowing costs	**40,835**	**41,894**
Foreign exchange loss	251	66
Other interest expenses	69	35
Re-measurement of contingent consideration	43	(101)
Lease interest expense	11	13
Unwinding discount on decommissioning provision	(76)	(964)
Total finance costs before borrowing costs capitalized	**41,133**	**40,943**
Borrowing costs capitalized	(3,201)	(1,464)
Total finance cost	**37,932**	**39,479**

Interest and amortization charges during 2023 relate to the Company's $300 million bond, which has a 4-year tenor due July 2025 and a 12% fixed, semi-annual coupon (the "2025 Bond"). The 2025 Bond was reduced to $277.5 million at the end of July 2023 when the first $22.5 million amortization payment was made. In 2022, the Company paid interest on the initial 2025 Bond issue amount of $111.5 million plus interest on $175 million of the ShaMaran bond issued in 2018 that carried a 12% fixed, semi-annual coupon and was due to mature on July 5, 2023 (the "2023 Bond").

Refer to Notes 16 and 17 regarding the 2023 Bond transaction costs and related-party loan, and also to Note 18 regarding the contingent consideration and decommissioning provision.

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. The increase in 2023 is due to the full-year inclusion of Sarsang-related borrowing costs. All other borrowing costs are recognized in the income statement in the period in which they are incurred.

Expressed in thousands of United States dollars

12. Taxation

(a) Income tax expense

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

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 that are available to apply to future taxable income as follows:

	For the year ended December 31,	
	2023	2022
Canadian losses from operations	169,486	169,213
Canadian exploration expenses	2,464	2,464
Canadian unamortized share issue costs	3	36
U.S. Federal losses from operations	-	173,480
U.S. Federal tax basis in excess of carrying values of properties	-	3,654
Total tax losses carried forward	**171,953**	**348,847**

The Canadian losses from operations may be used to offset future Canadian taxable income and will expire over the period from 2030 to 2043. 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 from years 2024 to 2026.

The US company, Bayou Bend Petroleum U.S.A. Ltd, was dissolved in October 2023. Therefore, the US tax losses are no longer available to the Company.

The Company has not recognized deferred tax assets amounting to approximately $46 million (2022: $84 million) as it is not probable that these amounts will be realized.

Expressed in thousands of United States dollars

13. Property, plant and equipment

	Oil and gas assets	Computer equipment	Furniture and office equipment	Total
At January 1, 2022				
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**
For the year ended December 31, 2023				
Opening net book value	302,217	96	71	302,384
Additions	25,725	57	-	25,782
Depletion and depreciation expense	(25,851)	(86)	(37)	(25,974)
Net book value	**302,091**	**67**	**34**	**302,192**
At December 31, 2023				
Cost	484,707	140	241	485,088
Accumulated depletion and depreciation	(182,616)	(73)	(207)	(182,896)
Net book value	**302,091**	**67**	**34**	**302,192**

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

During 2023, movements in PP&E were comprised of general additions of $25.8 million (2022: $31.4 million general additions plus $178.5 million Sarsang Acquisition), which included capitalized borrowing costs of $3.2 million (2022: $1.5 million), net of depletion and depreciation expense of $26.0 million (2022: $46.4 million), that resulted in a net decrease to PP&E assets of $0.2 million. Most of the PP&E additions were carried out in the first quarter of 2023, prior to the ITP closure.

Due to the closure of the ITP in 2023, the Company conducted impairment tests as of the reporting date to assess if the net book value of its oil and gas assets was fully recoverable. The Company has identified two separate CGUs, being its Atrush and Sarsang assets. The impairment tests were based on the McDaniel production and cost profiles related to 2P reserves, the 2024 operating budgets, a future cost inflation factor of 2% per annum and a discount rate of 17% to calculate the net present value at December 31, 2023, of the Company's projected share of future cash flows from the Atrush and Sarsang 2P reserves. The assessment concluded that there is no need for any impairment to PP&E.

The price assumptions used for the impairment assessment performed at December 31, 2023, are based on current local sales prices for 2024. Going forward, the sales prices use average Brent oil price assumptions based on the McDaniel forecast less an estimated discount to Brent based on past precedent.

Refer also to Notes 4 and 7.

Expressed in thousands of United States dollars

14. Accounts receivable

At December 31, 2023, the Company had receivables outstanding as follows:

	For the year ended December 31, 2023	2022
Accounts receivable on oil sales	95,474	95,481
Credit Loss Provision – transportation costs	(3,695)	(3,695)
Credit Loss Provision	(17,445)	(3,507)
Total accounts receivable, net of provisions	**74,334**	**88,279**
Current portion	38,913	88,279
Non-current portion	35,421	-

The accounts receivable on oil sales at December 31, 2023, mainly relates to deliveries to the KRG from October 2022 through March 2023 on the basis of the KBT pricing mechanism. The Company continues to discuss the recovery of these receivables with the KRG, but timing is uncertain (refer to Note 2b). Therefore, the Company has reassessed the credit loss provision and has compared the carrying value of the relevant trade receivables with the present value of the estimated future cash flows based on reasonable scenarios and has weighted the expected recovery of these outcomes according to the relative probability. A relevant discount rate has been applied to reflect counterparty discounting and credit risk to provide a reasonable approximation of the fair value of these trade receivables at December 31, 2023. The result of the Company's assessment under IFRS 9 is a further $13.9 million adjustment to these trade receivables in 2023 included in the statement of comprehensive income. The portion of these receivables that is estimated to be received post-year-end 2024 are classified as non-current due to uncertainty in timing of recovery.

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

Refer also to Note 6.

15. Accounts payable and accrued expenses

	For the year ended December 31, 2023	2022
Payables to joint operations partners	5,997	11,049
Accrued expenses	1,129	3,333
Trade payables	921	904
Total accounts payable and accrued expenses	**8,047**	**15,286**

The payables to joint operations partners decreased in 2023 due to reduced levels of activity in both blocks. Payables to both operators are up to date at December 31, 2023.

Expressed in thousands of United States dollars

16. Borrowings

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

Following the closing of the Sarsang Acquisition, the Company announced on September 27, 2022, that the Company's 2023 Bond was exchanged for its 2025 Bond at a 2% premium, in accordance with the 2025 Bond terms. The existing debt that was refinanced into the new bond included $7.2 million of the total $22.8 million debt owed by the Company to Nemesia S.à.r.l. ("Nemesia"), with the $15.6 million balance remaining on amended terms. Refer to Note 17 for additional information.

During 2021 and 2022, the Company purchased its own bonds in the market at commercially attractive rates. At December 31, 2023, the Company held $28.4 million of its own 2025 Bond (2022 year-end: $30.7 million). After the balance sheet date, $22.5 million of these bonds were retired in January 2024 to satisfy the amortization obligation.

On July 26, 2023, the Company announced that it had requested and received bondholder approval for a waiver to release cash from the 2025 Bond Debt Service Retention Account ("DSRA"). The waiver allowed the Company to use restricted cash in the DSRA to pay the bond interest and amortization obligations due on July 30, 2023. At December 31, 2023, the outstanding principal of the 2025 Bond was $277.5 million, and $22.8 million of restricted cash was held in the DSRA earning interest. At the date of these financial statements, the 2025 Bond amount is $255 million, due to the $22.5 million amortization payment made in January 2024, and $22.8 million is held as restricted cash in the DSRA.

The movements in borrowings are explained as follows:

	For the year ended December 31,	
	2023	2022
Opening balance:	**269,145**	**296,839**
Interest/amortization charges	38,707	35,544
Own bond amortization received/ (purchases)	2,303	(27,717)
2025 Bond issued	-	188,528
Amortization of 2023 Bond transaction costs	-	2,486
2025 Bond discount	-	(4,092)
2025 Bond transaction costs	-	(6,261)
Bond amortization	(22,500)	(175,000)
Payments to bondholders – interest	(30,400)	(41,182)
Ending balance	**257,255**	**269,145**
Non-current portion – net borrowings	193,746	236,443
Current portion - amortization instalments	45,000	22,500
Current portion – accrued bond interest expense	18,509	10,202

Refer also to Note 11.

Expressed in thousands of United States dollars

17. Loan from related-party

In July 2020, the Company announced a full drawdown of Nemesia's liquidity guarantee for $22.8 million followed by the full and final discharge of this liquidity guarantee by the Bond Trustee. In exchange for the drawdown of funds, the Company was required to issue monthly to Nemesia 50,000 ShaMaran shares for each $500 thousand drawn-down and outstanding until the drawn amount was repaid in full together with interest (the "Loan Shares"). In addition, the Company was required to accrue interest on the amount due to Nemesia at an annual rate of 5%.

After closing the Sarsang Acquisition and the bond conversion on September 27, 2022 (refer to Note 16), $7.2 million of the existing $22.8 million debt was converted into the new 2025 Bond. The balance of $15.6 million remains as the Nemesia loan with new terms. Repayment of the loan is due on January 30, 2026, six months after maturity of the 2025 Bond. Claim for repayment is subordinated to all obligations under the Company's 2025 Bond terms. The interest rate on the Nemesia loan was adjusted to match the interest rate on the 2025 Bond of 12% (payable in cash semi-annually) plus an additional interest amount of 2% per annum payable in kind, and the monthly common share allotment to Nemesia was eliminated. Following the amendments described above, the Nemesia loan accounting was changed accordingly.

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

	For the year ended December 31,	
	2023	2022
Opening balance	**16,175**	**21,748**
Amortization	2,129	2,662
Recognize Nemesia loan on new terms	-	15,600
Derecognize Nemesia loan on old terms	-	(23,835)
Payment to Nemesia – Interest	(1,581)	-
Ending balance	**16,723**	**16,175**

Refer also to Notes 11, 16 and 17.

18. Provisions

	For the year ended December 31,	
	2023	2022
Opening balance	**22,077**	**18,984**
Changes in estimates and obligations incurred	469	9,779
Unwinding discount on decommissioning provision	(76)	(964)
Changes in discount and inflation rates	(5,885)	(5,722)
Total decommissioning and site restoration provisions	**16,585**	**22,077**
Contingent consideration	11,254	10,849
Total provisions	**27,839**	**32,926**

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

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

Expressed in thousands of United States dollars

19. Share capital

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

	Number of shares	Share capital
At January 1, 2022	**2,215,349,663**	**640,521**
Loan Shares issued	22,572,000	1,297
RSU Shares issued	11,119,995	816
DSU Shares issued	1,566,832	111
Right Offering Shares issued, net of issuance costs	558,242,414	27,505
At December 31, 2022	**2,808,850,904**	**670,250**
RSU Shares issued	14,954,253	848
Option Shares issued	557,000	38
At December 31, 2023	**2,824,362,157**	**671,136**

As described in Note 17, the Company was required under the old Nemesia loan terms to issue to Nemesia 50,000 ShaMaran shares for each $500 thousand drawn-down per month until the drawn amount was repaid, resulting in a total of 22,572,000 Loan Shares being issued in 2022 through September 27, 2022.

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

During 2023, a total of 14,954,253 Restricted Share Units ("RSUs") vested and 557,000 stock options were exercised in accordance with the Company's Share Unit Plan (2022: 11,119,995 RSUs, 1,566,832 Deferred Share Units ("DSUs") and nil options), and 15,511,253 of the Company's shares were issued to plan participants. The carrying value of the RSU shares has been determined based on the Company's average closing share price over the five-day period prior to the vesting date.

Refer also to Note 20.

Earnings per share

The earnings per share amounts were as follows:

	For the year ended December 31, 2023	2022
Net income, in dollars	(26,706,000)	114,959,000
Weighted average number of shares outstanding during the year	2,820,794,284	2,581,563,233
Weighted average diluted number of shares outstanding during the year	2,942,842,006	2,698,241,183
Basic income per share, in dollars	(0.01)	0.05
Diluted income per share, in dollars	(0.01)	0.04

Expressed in thousands of United States dollars

20. Share-based payments expense

The Company has established share unit plans and a share purchase option plan whereby a committee of the Company's Board may, from time to time, grant up to a total of 10% of the issued share capital to directors, officers, employees or consultants. At December 31, 2023, a total of 122,047,723 shares (4% of issued share capital) had been granted of the possible 282,436,215 shares that could be granted under the plans. The number of shares issuable under these plans at any specific time to any one recipient shall not exceed 5% of the issued and outstanding common shares of the Company. Under the plans, the Company may grant options, performance share units ("PSU"), RSUs and DSUs.

In 2023, the Company granted 49,400,000 stock options, 19,750,000 RSUs and 4,770,110 DSUs (2022: a total of 20,750,000 stock options, 10,890,000 RSUs and 2,287,620 DSUs were granted).

In 2023, a total of 14,954,253 RSUs vested, and 557,000 stock options were exercised, the same quantity of shares were issued to plan participants, and 50,720,000 options and 2,319,084 RSUs were forfeited due to the end of service of plan participants (2022: 10,869,995 RSUs vested, the same quantity of shares were issued to plan participants, and 2,879,486 DSUs were exercised, of which 1,566,832 were redeemed in shares and the rest in cash).

The result of the movements in 2023 are charges to the Statement of Comprehensive Income for options of $1,331 thousand (2022: $1,039 thousand), for RSUs $953 thousand (2022: $951 thousand) and for DSUs $(220) thousand (2022: $348 thousand). The carrying amount of the DSU liability at December 31, 2023, is $565 thousand (December 31, 2022: $785 thousand).

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

	Number of stock options outstanding	Number of RSUs outstanding	Number of DSUs outstanding
At December 31, 2022	**82,740,000**	**22,123,339**	**11,814,611**
Granted in the year	49,400,000	19,750,000	4,770,110
Expired/forfeited in the year	(50,720,000)	(2,319,084)	-
Stock options exercised	(557,000)	-	-
RSUs vested	-	(14,954,253)	-
At December 31, 2023	**80,863,000**	**24,600,002**	**16,584,721**
Quantities vested and unexercised:			
At December 31, 2022	63,939,995	-	11,814,611
At December 31, 2023	80,863,000	-	16,584,721
Weighted average remaining contractual life of options:			
At December 31, 2022	2.3 years		
At December 31, 2023	3.5 years		

The Company recognizes compensation expense on stock options granted to both employees and non-employees using the fair value method at the date of grant. 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 stock options.

Expressed in thousands of United States dollars

21. Financial instruments

Financial assets

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

	Fair value hierarchy [6]	Carrying and fair values [1] At December 31, 2023	At December 31, 2022
Accounts receivable [5]	Level 3	74,334	88,279
Cash and cash equivalents, unrestricted [2]	Level 1	48,881	69,273
Cash and cash equivalents, restricted [2]	Level 1	22,841	36,457
Other receivables [2]	Level 2	1,789	1,485
Total financial assets		**147,845**	**195,494**

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

Financial liabilities

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

	Fair value hierarchy [6]	Carrying values At December 31, 2023	At December 31, 2022
Borrowings [3]	Level 2	238,746	258,943
Accrued interest on bonds	Level 1	18,509	10,202
Related-party loan [4]	Level 2	16,723	16,175
Accounts payable and accrued expenses [2]	Level 2	8,047	15,286
Current tax liabilities	Level 2	86	90
Total financial liabilities		**282,111**	**300,696**

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

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

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

[3] The Company estimates the fair value of its net borrowings (the gross outstanding amount of the 2025 Bond less Company-owned 2025 Bonds) at the balance sheet date is $225.4 million (December 31, 2022: $259.9 million) based on recent trades of the Company's bonds and indicative pricing provided by brokers.

[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 (December 31, 2022: $15.6 million).

[5] Provisions have been made to the accounts receivable, refer to Note 14 for additional information.

[6] *Fair value measurements*

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

- Level 1: fair value measurements are based on unadjusted quoted market prices;
- Level 2: fair value measurements are based on valuation models and techniques where the significant inputs are derived from quoted prices or indices; and
- 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 $284.3 million as at December 31, 2023 (2022: $295.7 million).

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. The price received for the Company's oil and gas production in Kurdistan is dependent upon the KRG 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(d). The majority of 2023 revenue is from local oil sales where the prices for crude oil sales to local refineries are in line with the local market and at a significant discount to international benchmark prices.

The Company does not hedge against commodity price risk.

Foreign currency risk

All of the Company's revenues and most of the purchases are denominated in USD and therefore the Company maintains a substantial portion of its cash and cash equivalents in the currency. 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, such as 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 small amounts of foreign currencies at any point in time and because its volume of transactions in foreign currencies is relatively low. Therefore, the Company does not hedge its exposure to 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,	
	2023	2022	2023	2022	2023	2022
Canadian dollars in thousands ("CAD 000")	402	91	149	28	295,308	242,605
Swiss francs in thousands ("CHF 000")	775	591	1,264	2,143	-	-

Expressed in thousands of United States dollars

Foreign currency sensitivity analysis

The Company is exposed to movements in CHF and CAD against the USD, the presentation 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, CHF and CAD. The analysis below is based on a strengthening of the CHF and CAD by 10% against the USD, the three currencies in which the Company has assets, liabilities and equity at the end of respective period. A movement of 10% reflects a reasonable 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 adjusts 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 the USD weakens 10% against the CHF or CAD based on assets, liabilities and equity held in CHF or CAD 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	
	2023	2022	2023	2022	2023	2022
Statement of comprehensive income – CAD	25	5	(9)	(2)	(18,311)	(14,281)
Statement of comprehensive income – CHF	125	78	(203)	(282)	-	-

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 2025 Bond. However, the Company is not exposed to interest-rate risks associated with the bonds or the Nemesia loan as the coupon and interest rate are fixed.

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, oil 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. Like 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 continues to develop projects, specific financing, including the possibility of additional debt, may be required to enable future development to take place. The financial results of the Company will impact its access to the capital markets necessary to undertake or complete future drilling and development programs. There can be no assurance that debt or equity financing, or future cash generated by operations, would be available or sufficient to meet these requirements, or, if debt or equity financing is available, that it will be on terms acceptable to the Company.

Expressed in thousands of United States dollars

The Company manages liquidity risk by maintaining adequate cash reserves and by continuously monitoring forecasted and actual cash flows. Annual capital expenditure budgets are prepared, which are regularly monitored and updated as 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	76,950	259,050	**336,000**
Payables to joint operations partner	4,227	-	**4,227**
Trade payables and accrued expenses	2,050	-	**2,050**
Loan from related-party	1,872	19,493	**21,365**
Total	**85,099**	**278,543**	**363,642**

Refer to Notes 15, 16 and 17.

22. Commitments and contingencies

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

	For the year ended December 31,				
	2024	2025	2026	Thereafter	Total
Atrush and Sarsang block development and PSC	31,593	166	166	992	**32,917**
Sarsang contingent consideration	-	-	-	15,000	**15,000**
Corporate office and other	68	-	-	-	**68**
Total commitments	**31,661**	**166**	**166**	**15,992**	**47,985**

Amounts relating to Atrush and Sarsang block developments represent the Company's unfunded paying interest share of the proposed 2024 work program and other obligations under the PSCs. Spending has been reduced by the operators of both blocks due to the closure of the ITP in March 2023, refer also to Note 2b.

For further information regarding the Sarsang contingent consideration, refer to Note 18.

Expressed in thousands of United States dollars

23. Interests in joint operations and other entities

Interests in joint operation – Atrush Block Production Sharing Contract

At December 31, 2023, ShaMaran holds a 27.6% participating interest in the Atrush PSC through General Exploration Partners, Inc ("GEP"). TAQA Atrush B.V. ("TABV") is the Operator of the Atrush Block with a 47.4% direct interest, and the KRG holds a 25% direct paying interest. TABV, the KRG and GEP together are "the Contractors" to the Atrush PSC. See Note 25 for recent developments on the Atrush interest.

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 a 18% participating interest (22.5% paying interest) in the Sarsang PSC through ShaMaran Sarsang A/S. HKN Energy Ltd. ("HKN") is the Operator of the Sarsang Block with a 62% direct interest (77.5% paying interest), and the KRG holds a 20% direct carried 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 KRG's 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 7 and 18.

Information about subsidiaries

The consolidated financial statements of the Company include:

Subsidiary	Principal activities	Country of Incorporation	% Equity interest as at 31 Dec 2023	31 Dec 2022
General Exploration Partners, Inc.	Oil exploration and production	Cayman Islands	100	100
ShaMaran Sarsang A/S	Oil exploration and production	Denmark	100	100
ShaMaran Services S.A.	Technical and admin. services	Switzerland	100	100
Bayou Bend Petroleum U.S.A. Ltd	Petroleum activities	United States	0	100
0781756 B.C. Ltd	Petroleum activities	Canada	0	100

Bayou Bend Petroleum U.S.A. Ltd and 0781756 B.C. Ltd were dissolved during October 2023.

Expressed in thousands of United States dollars

24. Related-party transactions

Transactions with corporate entities

	Purchase of services during the year		Amounts owing at the balance sheet dates	
	2023	2022	2023	2022
Nemesia	2,128	2,435	1,123	568
Lundin Foundation	65	-	-	-
Orron Energy AB	33	-	-	-
Namdo Management Services Ltd	31	32	-	-
International Petroleum Corp	5	-	31	-
Total	**2,262**	**2,467**	**1,154**	**568**

Nemesia is a company controlled by a trust settled by the estate of the late Adolf H. Lundin and is a shareholder and bondholder of the Company. The Company has a loan from Nemesia and the obligation to accrue 12% annual interest payable in cash semi-annually plus an additional interest amount of 2% per annum payable in kind based on the principal balance outstanding. Refer also to Note 17.

Lundin Foundation is a non-profit organization, of which the Company is a member of, that provides services for Lundin Group companies.

Namdo Management Services Ltd, Orron Energy AB and International Petroleum Corp are companies affiliated with shareholders of the Company and have provided corporate administrative support services to the Company.

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

Refer also to Note 11.

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,	
	2023	2022
Management short-term benefits	1,952	1,785
Management salaries	1,591	974
Management share-based payments	1,431	1,863
Director fees	274	258
Management pension benefits	214	167
Director share-based payments	(235)	580
Total	**5,227**	**5,627**

Short-term employee benefits include departure costs, 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'.*

25. Subsequent Events

On January 22, 2024, the Company announced the signing of definitive agreements with TAQA International B.V., a subsidiary of Abu Dhabi National Energy Company PJSC ("TAQA"), and HKN Energy IV, Ltd., an affiliate of HKN, that upon completion will increase ShaMaran's indirect ownership in the Atrush Block from 27.6% to 50% working interest.

NON-EXECUTIVE DIRECTORS

Chris Bruijnzeels
Director, Chairman

Michael S. Ebsary
Director

Keith C. Hill
Director

William A.W. Lundin
Director

OFFICERS

Garrett Soden
Director, President and Chief Executive Officer

Elvis Pellumbi
Chief Financial Officer

Alex C. Lengyel
Chief Commercial Officer and
Corporate Secretary

INVESTOR RELATIONS

Robert Eriksson

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Canada

INDEPENDENT AUDITORS

PricewaterhouseCoopers SA
Geneva, Switzerland

TRANSFER AGENT

Computershare Trust Company of Canada
Vancouver, Canada

STOCK EXCHANGE LISTINGS

Toronto: TSX Venture Exchange

Stockholm: NASDAQ First North
Growth Market

Trading Symbol: SNM