



SHAMARAN
petroleum corp

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SHAMARAN petroleum corp

***Management's Discussion and
Analysis***

*For the three and six months ended June 30, 2021
(UNAUDITED)*

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Management's Discussion and Analysis

For the three and six months ended June 30, 2021

INTRODUCTION

Management's discussion and analysis ("MD&A") of the financial and operating results of ShaMaran Petroleum Corp. (together with its subsidiaries, "ShaMaran" or the "Company") is prepared with an effective date of August 10, 2021 and is intended to provide an overview of the Company's operations, financial performance and current and future business opportunities. The MD&A should be read in conjunction with the unaudited condensed interim consolidated financial statements for the three and six months ended June 30, 2021, together with the accompanying notes ("Financial Statements").

Company Overview

ShaMaran is in the business of developing and producing oil and gas. The Company has a 27.6% ownership interest in the Atrush Block, Kurdistan Region of Iraq through its wholly owned subsidiary General Exploration Partners, Inc. ("GEP") and, upon the successful closing of the acquisition announced on July 12, 2021 with a TotalEnergies S.E. affiliate, the Company will then also have an 18% participating interest in the Sarsang Block, Kurdistan Region of Iraq through its then wholly-owned subsidiary TEPKRI Sarsang A/S.

The Company's common shares are listed on the TSX Venture Exchange in Canada and the NASDAQ First North Growth Market in Sweden. The Company is incorporated and domiciled in British Columbia, Canada under the Business Corporations Act. The address of its registered office is 25th Floor 666 Burrard Street Vancouver, BC Canada V6C 2X8 and its business address is Suite 2000, 885 West Georgia Street, Vancouver, BC Canada V6C 3E8.

Basis of Preparation

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

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

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SECOND QUARTER 2021 HIGHLIGHTS AND KEY SUBSEQUENT EVENTS

The second quarter of 2021 has been extremely positive and exciting for ShaMaran. Production growth and rising oil prices have generated record oil sales proceeds for the Company, combined with reduced costs the positive net result and EBITDAX have significantly increased resulting in record financials for ShaMaran this quarter. The Kurdistan Regional Government ("KRG") have continued to make monthly oil sales payments along with repayments of the outstanding receivables, which has continued to strengthen the Company's cash position. In addition to this in July 2021 the Company has taken transformative steps to substantially grow the Company as noted below in Corporate Highlights (Key Subsequent Events).

ATRUSH HIGHLIGHTS

Financial:

USD Thousands	Three months ended June 30		Six months ended June 30	
	2021	2020	2021	2020
Revenue	25,208	7,393	45,814	27,234
Gross margin on oil sales	14,953	(6,169)	25,207	(7,099)
Net result	6,834	(14,631)	9,303	(139,842)
Cash flow from operations	22,739	1,162	28,023	3,023
EBITDAX	18,402	(1,882)	31,902	4,731

- The second quarter of 2021 saw a positive net result of \$ 6.8 million, resulting in a net positive result for the six months of 2021 of \$ 9.3 million;
- A very strong EBITDAX of \$18.4 million for Q2 2021 and \$31.9 million for the six months of 2021, over six times the EBITDAX result for the six months of 2020;
- The KRG continues to repay the \$41.7 million of outstanding receivables for November 2019 to February 2020. At the date of this MD&A \$13.8 million has been invoiced to the KRG and \$9.6 million has been paid; and
- The Company's Bond amortization payment due in December 2021 has been reduced from \$15 million to \$5 million, due to the Company purchasing Bonds and retiring them in the first six months of 2021, the total of ShaMaran 2023 Bonds outstanding is \$180 million and 2025 Bonds is \$111.5 million as at the date of this MD&A.

Operational:

- Cumulative production of 45 million barrels achieved on May 13, 2021 despite the challenges of the global coronavirus pandemic ("COVID-19")¹ with its impact on crude oil prices and a significantly reduced capital development program in 2020;
- Average production of approximately 39,538 barrels of oil per day ("bopd") for the second quarter of 2021. With the resumption of capital development spending (deferred from 2020 due to COVID-19) Atrush now sees a return to sustained quarter on quarter production growth in 2021 (current production rates approximately 42,000 bopd);
- Atrush development drilling activities resumed with the spudding from Pad A of the CK-17 well on April 1, 2021. The CK-17 well was drilled and completed below budget and came online at an initial rate of 2,000 bopd and brought the Atrush production well count to eleven; and
- Second quarter 2021 lifting costs per barrel of \$4.49 an improvement to the 2021 guidance and a 16% decrease vs Q2 2020 lifting costs due to improved operating efficiencies.

CORPORATE HIGHLIGHTS (Key Subsequent Events)

- The Company announced on July 12, 2021 that it signed an agreement with a subsidiary of TotalEnergies S.E. to acquire its affiliate (TEPKRI Sarsang A/S) (the "Acquisition") holding an 18% non-operated participating interest in the Sarsang Production Sharing Contract in the Kurdistan Region of Iraq. The Acquisition has an effective date of January 1, 2021. The Company intends to finance the Acquisition through the issue of new debt, equity and by utilizing the Company's cash balance.

¹In March 2020 the World Health Organization declared a global pandemic following the emergence and rapid spread of a novel strain of COVID-19. The outbreak and subsequent measures intended to limit the pandemic contributed to significant declines and volatility in financial markets. The pandemic adversely impacted global commercial activity, including significantly reducing worldwide demand for crude oil.

The full extent of the impact of COVID-19 on the Company's operations and future financial performance is currently unknown. It will depend on future developments that are uncertain and unpredictable, including the duration and spread of COVID-19, its continued impact on capital and financial markets on a macro-scale and any new information that may emerge concerning the severity of the virus. These uncertainties may persist beyond when it is determined how to contain the virus or treat its impact.

The outbreak presents uncertainty and risk with respect to the Company, its performance, and estimates and assumptions used by management in the preparation of its financial results.

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- On July 16, 2021 the Company announced the successful placement of a new \$300 million bond, with a 4-year tenor and priced at 12% fixed semi-annual coupon (the "New Bond"). The proceeds from the New Bond issue will be used to refinance \$175 million of the currently outstanding \$180 million bond, to refinance \$7.2 million of existing subordinated debt, to partly finance the Acquisition announced July 12, 2021 and for general corporate purposes.
- On July 27, 2021 the Company announced that the proposals for the conditional refinancing of the existing bond (the "Old Bond") as well as necessary waivers for the issuance of the New Bond and other financial matters relating to the Old Bond have been approved by the Bondholders voting on the proposals.
- On July 30, 2021 the Company announced the issuance and settlement of the initial issue of the New Bond in the amount of \$111.5 million. Proceeds from this initial issue will be used to pay a portion of the purchase price of the Acquisition and have been placed into escrow subject to release following the satisfaction of conditions precedent to completion of the Acquisition. Also on this date the Company entered into an agreement with Nemesia S.à.r.l. ("Nemesia") (a private company ultimately controlled by a trust the settlor of which is the Estate of the late Adolf H. Lundin) to underwrite the planned \$30 million rights offering in the coming months referred to in the Company's news release of July 12, 2021.
- Upon the successful closing of the Acquisition, the interest in Sarsang block effective as of January 1, 2021:
 - (i) adds immediate incremental participating interest production of approximately 5,000 bopd of light crude oil (36-38 API);
 - (ii) is expected to double ShaMaran's Q2 2021 average net production, exceeding 20,000 bopd, following the completion of the processing facility expansion at Swara Tika field by mid-2022; and
 - (iii) enhances ShaMaran's oil reserves through the addition of high API and low sulphur oil that achieves a low discount to Brent.

OPERATIONS REVIEW

Business Overview

The second quarter of 2021 has witnessed improving market conditions for oil producers. Brent crude oil prices in this quarter have seen increases month-to-month with June 2021 average Brent crude oil prices being the first month that such prices averaged more than \$70 per bbl since May 2019. As Covid-19 vaccination rollouts have continued to ramp up in many parts of the world permitting business and personal travel and mobility to resume again towards the pre-Covid-19 norms. Increasing oil consumption combined with production restraint from OPEC+ and relatively flat crude oil output recently in the United States have kept global oil consumption above global oil supply, draining inventories. Crude oil prices received additional support from increasing global economic activity and decreasing global COVID-19 cases.

The Atrush field has continued to have sustained oil production notwithstanding Covid-19 in Kurdistan Region.

Upon the successful closing of the Acquisition, ShaMaran will (i) transform into a company with a growing portfolio from just one producing oil field to three producing oil fields (Atrush, Swara Tika and East Swara Tika) with improved oil qualities and complimentary production horizons, (ii) deleverage its financial metrics and (iii) assuming oil prices continue at current levels, by end of 2022 we expect a significant increase of cashflows.

ShaMaran remains cautiously optimistic that current oil prices will be sustained throughout the remainder of 2021 despite uncertainties in the global market. The Company remains focused on completing the Acquisition and continuing our financial discipline. We believe we will be well positioned in the near future to grow the Company even further to benefit from new market opportunities as they may present themselves.

Together with the risks disclosed in the Company's Annual Information Form dated March 3, 2021, management has not identified other trends or events that are expected to have a material adverse effect on the financial performance of the Company.

For additional background and history on the Company's Atrush ownership, please refer to the Company's Annual Information Form for the year ended December 31, 2020, which is available for viewing both on the Company's website at www.shamaranpetroleum.com and on SEDAR at www.sedar.com, under the Company's profile.

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Operations Overview

COVID-19 Response

The COVID-19 Atrush action plan, originally implemented in February 2020 and augmented through the addition of multiple quarantine stages for Atrush site arrivals as well as Erbil office staff, has been maintained through Q2 2021 ensuring the continued safety and security of Atrush operations staff and contractors, the KRG vaccination program was launched on March 4, 2021. KRG travel restrictions were relaxed during Q2 2021, a key element of gradual return to normal business operations.

To date Atrush oil production has been sustained notwithstanding the effects of the COVID-19 pandemic in Kurdistan. However, as a result of difficulty in procuring certain services due to Covid-19 travel restrictions certain Atrush project activities have been deferred or affected by the additional time required, such deferrals and effects have been successfully managed to avoid any negative impact on the production outlook.

Reserves and Resources

On February 15, 2021, the Company reported estimated reserves and contingent resources for the Atrush field as at December 31, 2020, as reported by the Company's independent reserves and resources evaluator, McDaniel.

Total field proven plus probable ("2P") reserves on a Company gross basis for Atrush increased from 29.9 million barrels reported as at December 31, 2019, to 30.3 million barrels as at December 31, 2020, being a 108% reserves replacement.

Total field unrisked best estimate contingent oil resources ("2C")² on a Company gross basis for Atrush decreased from the 2019 estimate of 67.2 million barrels to 60.6 million barrels as at December 31, 2020.

Total discovered oil in place in the Atrush block is a low estimate of 1.7 billion barrels, a best estimate of 2.0 billion barrels and a high estimate of 2.3 billion barrels.

For more information on reserves and resources, please reference our Form 51-101 F1 Statement of Reserves Data and Other Oil and Gas Information as at December 31, 2020 and available in the Company's profile on SEDAR at www.sedar.com.

Production

	Three months ended June 30		Six months ended June 30	
	2021	2020	2021	2020
Atrush average daily oil production – gross 100% field (Mbopd)	39.5	46.9	38.9	46.8
Atrush oil sales – gross 100% field (Mbbbl)	3,598	4,266	7,037	8,512
ShaMaran's entitlement in Atrush oil sales (Mbbbl)	478	533	934	1,096

Atrush production for Q2 2021 was down 16% over Q2 2020 due to the suspension of most of the capital programs in 2020. Due to the resumption of capital programs in 2021 Atrush production has increased by approximately 5% in Q2 2021 compared to Q1 2021 (and at the date of this MD&A has increased by 10% compared to Q1 2021). ShaMaran's entitlement in oil sales in Q2 2021 was down 10% compared to Q2 2020 due to the decreased capital investment and well interventions, as mentioned above.

Operational Outlook

With continuing improvement in oil prices in 2021 the Company anticipates a continuation of strong operating cash flow that will be supported with prudent capital deployment in the year. The Company restates the guidance for 2021 provided in its news release of February 15, 2021, as follows:

- Resumption of suspended 2020 capital program with Atrush capital expenditures for 2021 planned at \$53.2 million (\$14.7 million net to ShaMaran). This capital program includes:
 - The drilling and completion, on time and under budget, of a side-track CK-17 well to recover from the upper Jurassic reservoir; and
 - Initiation of the gas solution project which will significantly reduce emissions by using existing infrastructure to generate electrical power from produced gas. As the Atrush field is currently dependant on rented diesel-fuelled generators for all electrical power, this project will also therefore greatly reduce future operating costs.
- Resumption of deferred drilling and completion spending in 2021 is expected to generate quarter-on-quarter production growth and Atrush field gross average daily production is therefore expected to range from 39,000 bopd to 44,000 bopd;
- Atrush operating expenditure is forecast to be \$80 million (\$22 million net to ShaMaran) for 2021, in line with 2020 actual operating costs; and
- Atrush average lifting costs per barrel are estimated to range from \$4.70 to \$5.70. Atrush lifting costs are mainly fixed costs and dollar-per-barrel estimates should decrease with increasing levels of production and operational efficiencies.

² This estimate of remaining recoverable resources (unrisked) includes contingent resources that have not been adjusted for risk based on the chance of development. It is not an estimate of volumes that may be recovered.

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FINANCIAL REVIEW

Financial Results

Selected Quarterly Financial Information

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

USD Thousands (except per share data)	Q2 2021	Q1 2021	Q4 2020	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019
Continuing operations:								
Revenue	25,208	20,606	14,081	15,358	7,393	19,841	24,345	18,804
Cost of goods sold	(10,255)	(10,352)	(3,828) ³	(11,406)	(13,562)	(20,771)	(14,071)	(13,648)
General and admin expense	(1,804)	(1,543)	(2,115)	(1,678)	(2,512)	(1,876)	(2,975)	(1,881)
Share based payments	(469)	(665)	(258)	(283)	(406)	(716)	(205)	(339)
Depreciation and amortization	(55)	(57)	(54)	(52)	(50)	(49)	(46)	(52)
Impairment loss	-	-	-	-	-	(116,164)	-	-
Impairment loss – Trade receivables	-	-	(3,201)	-	-	-	-	-
Finance cost	(6,054)	(6,167)	(6,441)	(4,654)	(5,469)	(5,479)	(5,507)	(5,402)
Finance income	276	669	2	-	1	34	71	112
Income tax expense	(13)	(22)	29	(18)	(26)	(31)	(26)	(14)
Net income / (loss)	6,834	2,469	(1,785)	(2,733)	(14,631)	(125,211)	1,586	(2,420)
 EBITDAX	 18,402	 13,500	 6,614	 8,707	 (1,882)	 6,613	 14,833	 9,424
Basic and diluted net inc / (loss) in \$ per share	0.003	0.001	(0.001)	(0.001)	(0.007)	(0.058)	0.001	(0.001)

Earnings before interest, tax, depreciation, amortisation, and exploration expense ("EBITDAX")⁴ is calculated as the net result before financial items, taxes, depletion of oil and gas properties, impairment costs, depreciation and exploration expenses and adjusted for non-recurring profit/loss on sale of assets and other income. Explanations of the significant variances between periods are provided in the following sections.

Summary of Principal Changes in the Second Quarter Financial Information

The \$6.8 million net income in Q2 2021 was primarily driven by the increased gross margin due to higher oil prices and sustained production. The income and expenses in the second quarter are explained in more detail in the following sections.

The Company generated a strong \$18.4 million of EBITDAX in the second quarter of 2021, as shown in the following table, underlining the capacity of the Company to generate positive operational cash.

EBITDAX - Non-IFRS Measures

USD Thousands	Three months ended June 30		Six months ended June 30	
	2021	2020	2021	2020
Revenues	25,208	7,393	45,814	27,234
Lifting costs	(4,459)	(6,311)	(9,317)	(13,225)
Other costs of production	(74)	(46)	(114)	(3,768)
General and administrative expense	(1,804)	(2,512)	(3,347)	(4,388)
Share based payments	(469)	(406)	(1,134)	(1,122)
EBITDAX	18,402	(1,882)	31,902	4,731

³ The exceptionally low depletion costs in Q4 2020 are due to a positive adjustment made to cumulative depletion for the increase in reserves at 2020 year-end which spread depletion costs over an increased number of barrels.

⁴ Non-IFRS measures do not have any standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other public companies. Non-IFRS measures should not be considered in isolation or as a substitute for measures prepared in accordance with IFRS. The Corporation uses non-IFRS measures to provide investors with supplemental measures.

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Gross margin on oil sales

USD Thousands	Three months ended June 30		Six months ended June 30	
	2021	2020	2021	2020
Revenue from Atrush oil sales	25,208	7,393	45,814	27,234
Lifting costs	(4,459)	(6,311)	(9,317)	(13,225)
Other costs of production	(74)	(46)	(114)	(3,768)
Depletion costs	(5,722)	(7,205)	(11,176)	(17,340)
Cost of goods sold	(10,255)	(13,562)	(20,607)	(34,333)
Gross margin on oil sales	14,953	(6,169)	25,207	(7,099)

Revenue from Atrush oil sales relates to the Company's entitlement share of oil sales from the Atrush Block. The increase in revenues in Q2 2021 as compared to Q2 2020 were driven by higher average net oil prices, slightly offset by lower average daily production (39.5 Mbopd vs 46.9 Mbopd). Q2 2021 production was sold at an average net oil price of \$52.78 per barrel after deducting \$15.78 per barrel average discount for oil quality and transportation costs which compares, respectively, to \$13.87 and \$15.77 for oil sales made in Q2 2020. The higher oil prices resulted in increased revenues of \$18.6 million which was partly offset by \$0.8 million of negative impact on revenues due to lower production.

Lifting costs are comprised of the Company's share of expenses related to the production of oil from the Atrush Block including operation and maintenance of wells and production facilities, insurance, and the Operator's related support costs. The average lifting cost per barrel of Atrush oil produced was \$4.49 per barrel in Q2 2021 (Q2 2020: \$5.36 per barrel). The decrease per barrel related mainly to lower diesel costs in Q2 2021.

Other costs of production include the Company's share of production bonuses paid to the KRG and other costs prescribed under the Atrush PSC. Other costs of production in the year 2020 included \$3.7 million due to the KRG for the Company's share of the production bonus related to cumulative oil production from Atrush of 25 million barrels which was reached in February 2020. No such production bonus was payable in the first six months of 2021.

Depletion costs per entitlement barrel in Q2 2021 was \$11.98 (Q2 2020: \$13.52). The decrease is due to increase in reserves determined in the 2020 year-end reserves report which spread depletion cost over more barrels.

Gross margin on oil sales was significantly higher in Q2 2021 due to the items mentioned above: increased oil prices, lower lifting costs, no production bonus due and reduced depletion costs.

General and administrative expense

USD Thousands	Three months ended June 30		Six months ended June 30	
	2021	2020	2021	2020
Salaries and benefits	589	810	1,383	1,609
Management and consulting fees	489	1,112	859	1,691
Legal, accounting and audit fees	458	397	579	611
General and other office expenses	158	101	284	207
Listing costs and investor relations	86	77	213	176
Travel expenses	24	15	29	94
General and administrative expense	1,804	2,512	3,347	4,388

The reduced general and administrative expense incurred in Q2 2021 compared to Q2 2020 was principally due to a reduction in the Company's personnel and lower consulting costs compared to this period in 2020 which was a time when the Company was actively reviewing its strategic and financial options with outside consultants. The increase in general and other office expenses in the three and six months of 2021 compared to 2020 is due to an increase in director and officer liability insurance costs.

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Share based payments expense

USD Thousands	Three months ended June 30		Six months ended June 30	
	2021	2020	2021	2020
RSU expense	217	133	317	210
Option expense	144	265	418	853
DSU expense / (recovery)	108	8	399	59
Total share-based payments	469	406	1,134	1,122

The share-based payments expense relates to the vesting of stock options, granted deferred share units ("DSUs") and restricted share units ("RSUs"). At June 30, 2021 there was in total 61,990,000 outstanding stock options (June 30, 2020: 60,910,000), 24,723,334 RSUs (June 30, 2020: 32,530,000) granted to certain senior officers and other eligible persons of the Company and 12,406,477 DSUs (June 30, 2020: 7,346,877) granted to ShaMaran's non-executive directors. Also refer to the discussion under the "Outstanding share data, share units and stock options" section below.

Depreciation and amortization expense

USD Thousands	Three months ended June 30		Six months ended June 30	
	2021	2020	2021	2020
Depreciation and amortization expense	55	50	112	99

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

Impairment loss

USD Thousands	Three months ended June 30		Six months ended June 30	
	2021	2020	2021	2020
Impairment loss	-	-	-	116,164

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

Finance income

USD Thousands	Three months ended June 30		Six months ended June 30	
	2021	2020	2021	2020
Net gain from settlement of debt	270	-	792	-
Interest on deposits	6	1	10	3
Total interest income	276	1	802	3
Foreign exchange gain	-	-	77	13
Total finance income	276	1	879	16

The net gain on settlement of debt is due to the Company purchasing its 2023 Bonds in the market at commercially attractive rates, as permitted by the January 2021 amendment to the Bond terms, resulting in, as at June 30, 2021, a net gain on settlement of \$0.792 million which is included in finance income in the income statement.

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Finance cost

USD Thousands	Three months ended June 30		Six months ended June 30	
	2021	2020	2021	2020
Interest charges on bonds at coupon rate	5,491	5,637	11,020	11,337
Amortization of the related party loan	621	-	1,217	-
Amortization of bond transaction costs	157	33	313	65
Total borrowing costs	6,269	5,670	12,550	11,402
Foreign exchange loss	66	19	-	-
Lease – interest expense	6	2	10	4
Unwinding discount on decommissioning provision	(154)	23	(183)	14
Total finance costs before borrowing costs capitalized	6,187	5,714	12,377	11,420
Borrowing costs capitalized	(133)	(245)	(222)	(491)
Finance cost	6,054	5,469	12,155	10,929

Borrowing costs are capitalized where they are directly attributable to the acquisition of, and preparation for their intended use, Atrush development assets. The decrease in capitalized borrowing costs in 2021, compared to 2020, is due to a number of development projects having been completed for their intended use. All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

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

Income tax expense

USD Thousands	Three months ended June 30		Six months ended June 30	
	2021	2020	2021	2020
Income tax expense	13	26	35	57

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

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Capital Expenditure

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

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

USD Thousands	Year ended June 30, 2021			Year ended December 31, 2020		
	Oil and gas assets	Office equipment	Total	Oil and gas assets	Office equipment	Total
Opening net book value	145,875	171	146,046	207,695	208	207,903
Additions	15,641	-	15,641	9,520	2	9,522
Impairment	-	-	-	(48,550)	-	(48,550)
Depletion and depreciation expense	(11,176)	(37)	(11,213)	(22,790)	(39)	(22,829)
Net book value	150,340	134	150,474	145,875	171	146,046

During the first six months of 2021 movements in PP&E were comprised of Atrush block development cost additions of \$15.6 million (2020: \$9.5 million), which included capitalized borrowing costs of \$222 thousand (2020: \$908 thousand), net of depletion of \$11.2 million (2020: \$22.8 million) and an impairment of \$nil (2020: \$48.6 million) which resulted in a net increase to PP&E assets of \$4.4 million.

Due to a significant decline in world oil prices in the first quarter of 2020 the Company conducted an impairment test as at March 31, 2020 to assess if the net book value of its oil and gas assets was fully recoverable. This led to a non-cash impairment charge of \$48.6 million which is included in the statement of comprehensive income for the prior year.

Capital Expenditures on Intangible Assets

The net book value of intangible assets at June 30, 2021 relates to computer software. The opening net book value in 2020 was principally comprised of exploration and evaluation ("E&E") assets which represented the Atrush Block exploration and appraisal costs related to the Company's share of Atrush Block contingent resources as estimated by McDaniel. The movements in Intangible assets are explained as follows:

USD Thousands	Year ended June 30, 2021			Year ended December 31, 2020		
	E&E assets	Software & Licences	Total	E&E assets	Software & Licences	Total
Opening net book value	-	70	70	67,616	33	67,649
Addition / (reversal)	-	2	2	-	51	51
Amortization expense	-	(18)	(18)	-	(14)	(14)
Impairment loss	-	-	-	(67,616)	-	(67,616)
Net book value	-	54	54	-	70	70

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

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Financial Position and Liquidity

Loans and receivables

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

At June 30, 2021, the Company had loans and receivables outstanding as follows:

USD Thousands	At June 30, 2021	At December 31, 2020
Accounts receivable on Atrush oil sales	43,002	38,584
Atrush Exploration Costs receivable	23,218	32,686
Provision for impairment	(3,201)	(3,201)
Total loans and receivables	63,019	68,069

In December 2020 the KRG proposed a repayment mechanism for the \$41.7 million owed to the Company for \$34 million of deliveries from November 2019 to February 2020 and an additional \$7.7 million of Atrush Exploration Costs receivable invoiced over the same period. This proposal stated that a mechanism will be in place for repayment of amounts owed once the Brent oil price is over \$50 per barrel in any month and that various dues owed to the KRG will be offset against the amounts owed from the KRG. At December 31, 2020, the Company assessed the proposal, taking into account counterparty discounting and credit risk, and estimated the future cash flows of the trade receivables. Under IFRS 9 this resulted in a \$3.2 million adjustment to these trade receivables included in the statement of comprehensive income for the year ended December 31, 2020. The repayment mechanism began in January 2021, terms were updated by the KRG in March and May 2021, and at the date of this MD&A \$13.8 million has been invoiced to the KRG and \$9.6 million has been paid. The Company has reassessed the impairment provision made at 2020 year-end, with the updated terms, and the provision is still deemed appropriate at June 30, 2021.

In the period from the balance sheet date up to the date of this MD&A the Company received \$12.3 million in total payments for receivables balances outstanding at June 30, 2021, comprised of \$9.7 million in total payments for its entitlement share of oil sales for the month of May 2021, \$1.7 million in reimbursements of the Atrush Exploration Costs receivable and \$0.9 million for outstanding receivables.

Borrowings

The ShaMaran 2023 Bonds have one amortization due in December 2021 and carry 12% fixed semi-annual coupon and mature on July 5, 2023. At the date of this MD&A there were \$180 million of such ShaMaran 2023 Bonds outstanding. The 2023 Bonds will be exchanged for ShaMaran 2025 Bonds immediately following the successful completion of the Acquisition. The initial amount of 2025 Bonds were issued in the amount of \$111.5 million on July 30, 2021.

The Company has an obligation under the 2023 Bond terms to make a Bond amortization payment of \$15 million by December 2021, to reduce the outstanding ShaMaran 2023 bonds to \$175 million. On January 26, 2021, the Company announced that the proposal had been approved by its bondholders to permit the Company to use its "free cash", in excess of \$15 million, to buy back its 2023 Bonds in the market, at the Company's discretion. All 2023 Bonds so re-purchased will be retired by the Company. During the first six months of 2021, the Company has re-purchased \$10 million of 2023 Bonds in the market at commercially attractive rates resulting in a net gain. The Company's 2023 Bond amortization payment due in December 2021 has accordingly been reduced from \$15 million to \$5 million ahead of schedule.

The 2020 amendment and restatement of the Bond Terms for the 2023 Bonds included an amendment to provide for a put option in favour of the Bondholders to require that the Company purchase the Bonds (at par plus accrued interest and the existing call premium) at any time on ten (10) business days' notice subject to the affirmative vote by holders of 50.01% of the Bonds. As the put option in the amended Bond terms is outside of management's control all the borrowings continue to be classified as current at June 30, 2021. Upon successful closing of the Acquisition this specified put option will no longer exist following the exchange of all of the ShaMaran 2023 Bonds for ShaMaran 2025 Bonds.

Management's Discussion and Analysis

For the three and six months ended June 30, 2021

The movements in borrowings are explained as follows:

USD Thousands	At June 30, 2021	At December 31, 2020
Opening balance	199,561	200,693
Interest charges at coupon rate	11,020	22,800
Amortization of bond transaction costs	313	375
Bond remeasurement	-	(1,505)
Bonds retired	(10,000)	-
Payments to Bondholders – interest and call premiums	(11,665)	(22,802)
Ending balance	189,229	199,561
Current portion: borrowings	178,729	188,416
Current portion: accrued bond interest expense	10,500	11,145

Loan from related party

In July 2020 the Company announced full drawdown of the \$22.8 million of funds from Nemesia for a full and final discharge of the liquidity guarantee, provided to the Bond Trustee on behalf of the bondholders by Nemesia on behalf of the Company, to secure the Company's obligations under the ShaMaran 2023 bond terms. \$11.4 million of the funds were used to pay the July 2020 bond coupon interest payment and the remaining \$11.4 million, that was held as restricted cash, were then used to pay 2023 bond coupon interest due on January 5, 2021. In exchange for the drawdown of funds the Company is required to issue to Nemesia 50,000 shares of ShaMaran for each \$500 thousand drawn down per month until the drawn amount is repaid (the "Loan Shares"). At the current full \$22.8 million level of drawdown the Company is required to issue to Nemesia 2,280,000 ShaMaran shares per month.

In accordance with *IFRS 9 Financial Instruments* the liquidity guarantee is a compound financial instrument which has two parts: a liability component and an equity component. The fair value of the liability component is presented on the balance sheet as "loan from related party". The fair value of the equity is presented on the balance sheet as "Loan Share reserve". As Nemesia are issued the Company shares each month the Loan Share reserve value is transferred into share capital on a straight-line basis. During 2021 \$787 thousand (2020 \$655 thousand) has been transferred into share capital.

The first six months of 2021 movements in the liquidity guarantee loan balance are explained as follows:

USD Thousands	At June 30, 2021	At December 31, 2020
Opening balance	19,214,595	-
Amortization of the liability component	1,217,236	1,132,450
Cash received: full amount of the liquidity guarantee	-	22,800,000
FV of the equity component	-	(4,717,855)
Ending balance	20,431,831	19,214,595
Non-current liability: loan from related party	20,431,831	19,214,595

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

Management's Discussion and Analysis

For the three and six months ended June 30, 2021

Liquidity and Capital Resources

USD Thousands	Six months ended June 30	
	2021	2020
Selected liquidity indicators		
Cash flow from operations	28,023	3,023
Cash in bank	37,476	5,524
Negative working capital	(91,362)	(13,532)

Cash flow from operations of \$28.0 million for the six months ended June 30, 2021 is up by \$25.0 million from \$3.0 million reported in the same period of 2020 principally due to \$22.6 million from significantly improved oil prices (average netback price per entitlement barrel \$49.04 compared to \$24.84) which has more than offset the negative \$4 million impact due to slightly less production in the six months (average daily production 38.9 Mbopd compared to 46.8 Mbopd).

Working capital at June 30, 2021 was negative \$91.4 million compared to negative \$13.5 million at June 30, 2020. The increase in negative working capital since June 30, 2020 is principally due to the payments for November 2019 through February 2020 oil sales being classed as current receivables and the 2023 bonds being classed as a current liability.

The overall cash position of the Company increased by \$9.1 million during the first six months of 2021, as compared to the decrease of \$10 million during the same period of 2020. The main components of the movement in funds were as follows:

- The operating activities of the Company during the first six months of 2021 resulted in an increase of \$28.0 million in the cash position (2020: increase of \$3 million). The change in cash from operations is explained by the net income of \$9.3 million plus \$18.7 million of net positive cash adjustments from working capital items.
- Net cash in from investing activities during the first six months of 2021 were \$2.0 million (2020: outflows of \$1.6 million). Cash in from investing activities were comprised of \$7.5 million out for the investments in the Atrush Block development work program net of cash inflows of \$9.5 million in payments by the KRG of Atrush loans and receivables.
- Net cash outflows from financing activities in the six months were \$20.9 million (2020: cash outflows of \$11.4 million) and comprised of the \$11.7 million semi-annual interest payments to ShaMaran bondholders in January 2021 and \$9.2 million for the purchase of bonds and related interest that were then retired.

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

Off Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Transactions with Related Parties

USD Thousands	Purchase of services for periods ended June 30,				Amounts owing at the balance sheet dates	
	three months		six months		June 30, 2021	December 31, 2020
	2021	2020	2021	2020		
Nemesia	675	-	1,349	-	1,255	690
Namdo Management Services Ltd	8	12	16	24	-	-
Total	683	12	1,365	24	1,255	690

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

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

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

Management's Discussion and Analysis

For the three and six months ended June 30, 2021

Outstanding Share Data, Share Units and Stock options

Common shares

The Company had 2,199,376,828 outstanding shares at June 30, 2021, 2,298,496,639 outstanding shares after dilution and 2,203,609,663 outstanding shares at the date of this MD&A.

Details of share issuance in the first six months of 2021 and since June 30, 2021 are as follows:

- 13,680,000 common shares were issued to Nemesia, and a further 4,560,000 up to the date of this MD&A, in accordance with the loan repayment terms between the Company and Nemesia. The carrying value of the shares has been determined based on the total loan share reserve value and is amortized over the three-year life of the loan. See "loan from related party".
- 9,828,627 Restricted Share Units ("RSUs") vested in accordance with the Company's Share Unit Plan and were issued to grantees. The carrying value of the RSU Shares has been determined based on the Company's average closing share price over the 5-day period prior to the vesting date.

Share units and Stock options

The Company has established share unit plan and a stock option plan whereby a committee of the Company's Board may, from time to time, grant up to a total of 10% of the issued share capital to directors, officers, employees or consultants. At June 30, 2021, a total of 88,119,811 shares, 4% of issued share capital, had been granted of the possible 219,937,682 shares that could be granted under the plans. Under the share unit plan the Company may grant performance share units ("PSU"), and restricted share units ("RSU"). As at June 30, 2020 and the date of this MD&A there are no PSUs outstanding. A deferred share unit ("DSU") plan exists for non-executive directors of the Company.

On March 8, 2021, the Company granted

- 8,950,000 RSUs to certain senior officers and other eligible persons of the Company at a grant date share price of CAD 0.051. In the first half of 2021 a total of 9,828,627 RSUs vested, and the same quantity of shares were issued to plan participants, 3,091,372 RSUs were cancelled or expired due to the end of service of plan participants. The Statement of Comprehensive Income includes RSU related charges of \$317 thousand (2020: \$210 thousand) for the first six months.
- 5,059,600 of DSUs to non-executive directors at a grant share price of CAD 0.05. The Statement of Comprehensive Income includes DSU related charges of \$399 thousand for the first six months of 2021 (2020: \$59 thousand). The carrying amount of the DSU liability at June 30, 2021 is \$601 thousand.
- 15,590,000 stock options to certain senior officers and other eligible persons of the Company at a strike price of CAD 0.05. In the first six months of 2021 a total of 14,210,000 were cancelled due to the end of service of grantees. The Statement of Comprehensive Income includes option related charges of \$418 thousand (2020: \$853 thousand) for the first six months.

At June 30, 2021 there were 61,990,000 stock options outstanding under the Company's employee incentive stock option plan. No stock options were exercised in 2021 (year 2020: nil).

The Company has no warrants outstanding.

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

	Number of share options outstanding	Number of RSUs outstanding	Number of DSUs outstanding
At December 31, 2020	60,610,000	28,693,333	7,346,877
Granted in the period	15,590,000	8,950,000	5,059,600
Expired/cancelled in the period	(14,210,000)	(3,091,372)	-
RSU Shares issued in the period	-	(9,828,627)	-
At June 30, 2021	61,990,000	24,723,334	12,406,477
Quantities vested and unexercised:			
At December 31, 2020	28,950,000	-	7,346,877
At June 30, 2021	39,719,993	-	12,406,477

Management's Discussion and Analysis

For the three and six months ended June 30, 2021

Contractual Obligations and Commitments

Atrush Block Production Sharing Contract

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

As at June 30, 2021, the outstanding commitments of the Company were as follows:

USD Thousands	For the year ended June 30,				Total
	2022	2023	2024	Thereafter	
Atrush Block development	20,595	166	166	1,490	22,417
Corporate office and other	129	-	-	-	129
Total commitments	20,724	166	166	1,490	22,546

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

Under the terms of the Atrush PSC the Company will owe a share of production bonuses payable to the KRG when cumulative oil production from Atrush reaches production milestones defined in the Atrush PSC. The final production bonus payable is \$23.3 million at the 50 million cumulative barrel production milestone (ShaMaran share: \$6.43 million). This final production milestone is expected to be achieved during the second half of 2021.

Critical Accounting Policies and Estimates

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

Accounting for Oil and Gas Operations

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

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

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

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

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

Management's Discussion and Analysis

For the three and six months ended June 30, 2021

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

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

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

Risks in estimating resources

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

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

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

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

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

Management's Discussion and Analysis

For the three and six months ended June 30, 2021

FINANCIAL INSTRUMENTS

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

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

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

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

Financial Risk Management Objectives

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

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

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

The Company does not hedge against commodity price risk.

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

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

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

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

Management's Discussion and Analysis

For the three and six months ended June 30, 2021

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

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

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

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

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

RISK AND UNCERTAINTIES

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

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

Impact of COVID-19 and potential variants

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

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

Management's Discussion and Analysis

For the three and six months ended June 30, 2021

ADDITIONAL INFORMATION

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

The Company plans to publish on or about November 10, 2021 its financial statements for the three and nine months ended September 30, 2021.

Management's Discussion and Analysis

For the three and six months ended June 30, 2021

OTHER SUPPLEMENTARY INFORMATION

Abbreviations

CAD	Canadian dollar
CHF	Swiss Franc
EUR	Euro
USD	US dollar

Oil related terms and measurements

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

Management's Discussion and Analysis

For the three and six months ended June 30, 2021

DIRECTORS

Dr. Adel Chaouch
Director, President and Chief Executive Officer

Chris Bruijnzeels
Director, Chairman

Michael S. Ebsary
Director

Keith C. Hill
Director

William A.W Lundin
Director

OFFICERS

Dr. Adel Chaouch
Director, President and Chief Executive Officer

Alex C. Lengyel
Chief Commercial Officer
and Corporate Secretary

Suzanne Ferguson
Assistant Corporate Secretary

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Sophia Shane

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STOCK EXCHANGE LISTINGS

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

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