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SHAMARAN petroleum corp

Management's Discussion and Analysis

For the three months ended March 31, 2024

(UNAUDITED)

Contents

Management's Discussion and Analysis
For the three months ended March 31, 2024

INTRODUCTION

Management's discussion and analysis ("MD&A") of the financial and operating results of ShaMaran Petroleum Corp. (together with its subsidiaries, "ShaMaran" or the "Company") is prepared with an effective date of May 8, 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 unaudited condensed interim consolidated financial statements for the three months ended March 31, 2024, together with the accompanying notes ("Financial Statements"), the 2023 Annual Information Form and the First Quarter 2024 Results press release.

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 1075 West Georgia Street, Suite 1200, Vancouver, BC V6E 3C9, Canada, and its business address is 1055 Dunsmuir Street, Suite 2800, PO Box 49225, Vancouver, BC V7X 1LC, Canada.

Basis of Preparation

The MD&A and 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").

Management's Discussion and Analysis
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INTERIM MD&A QUARTERLY HIGHLIGHTS

- 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 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[1] would be 769%[2] for 2023.
- The closure of the Iraq-Türkiye ("ITP") pipeline 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;
- In Q1 2024, average gross daily oil production from Atrush and Sarsang combined was 57,400 bopd (66,800 bopd in Q1 2023), 14% lower than Q1 2023, due to the closure of the ITP;
- Revenue in Q1 2024 was $22.6 million, 48% lower than Q1 2023 revenue of $43.4 million, mainly due to the lower net oil price in the local sales market;
- Q1 2024 oil sales to the Kurdistan local market averaged a net oil price of $36.49/bbl, 40% lower than Q1 2023 average net oil price of $60.53/bbl;
- Lifting costs in Q1 2024 were $5.5 million, 42% lower than Q1 2023 lifting costs of $9.5 million, due to lower production and a focus on cost reduction following the ITP closure;
- Q1 2024 gross margin on oil sales of $6.8 million, 69% lower than the Q1 2023 gross margin on oil sales of $22.1 million, due to the lower local sales net oil prices and lower production;
- EBITDAX[3] has consistently increased since the ITP shutdown, with Q1 2024 EBITDAX at $14.2 million (Q1 2023 EBITDAX was $30.2 million);
- The Company generated $18.3 million in operating cash flow during Q1 2024 from local sales, matching Q1 2023 operating cash flow (the last quarter prior to the ITP shutdown);
- ShaMaran generated $17.5 million of free cash flow before debt service[3] in Q1 2024 due to the strength of local sales and proactive cost-cutting at both the corporate and operating asset levels, Q1 2023 free cash flow before debt service was $6.7 million;
- In January 2024, the Company retired $22.5 million of its own bonds to satisfy the semi-annual bond amortization alongside the cash coupon payment of $16.6 million on the ShaMaran 2025 bond; and
- At March 31, 2024, the Company had cash of $71.6 million (including restricted cash of $25.3 million) and gross debt of $270.6 million (including the $255 million bond and $15.6 million related-party loan). Net debt[3] was $193.1 million (including $5.9 million in ShaMaran 2025 bonds held by the Company).

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

[2] 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%

[3] 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.

OPERATIONS REVIEW

		Three months ended March 31,		Three months ended December 31,
		2024	2023	2023
Average daily oil production – gross 100% field (Mbopd)				
- Atrush		20.0	30.6	9.0
- Sarsang		37.4	36.2	36.4
Total		**57.4**	**66.8**	**45.4**
Oil sales – gross 100% field (Mbbl)				
- Atrush		1,817	2,729	829
- Sarsang		3,345	3,153	3,519
Total		**5,162**	**5,882**	**4,348**
ShaMaran oil sales entitlement (Mbbl)				
- Atrush	27.6%	241	361	110
- Sarsang	18.0%	378	356	401
Total		**619**	**717**	**511**

At Atrush, the ITP closure on March 25, 2023, shut-in production until November 7, 2023, when local sales started at a reduced rate through pipeline flow reversal. 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 at the end of January 2024. Production increased in February 2024 to approximately 25,000 bopd, which the Atrush operator considers the maximum sales level for domestic deliveries without trucking facilities.

At Sarsang, well and processing capacity has been optimized to meet local sales demand and maximize field cash generation since the ITP closure, with two of the four available production facilities maintained online for an average production rate of 37,400 bopd during Q1 2024. Following a decrease during facilities maintenance in April 2024, production has partially recovered as of the end of April, with further increases towards the Q1 2024 levels expected in the coming weeks.

The ST-AW1 water disposal well was drilled and completed in April 2023 and became operational in March 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)	Q1 2024	Q4 2023	Q3 2023	Q2 2023	Q1 2023	Q4 2022	Q3 2022	Q2 2022
Continuing operations:								
Revenue	**22,588**	20,320	12,644	6,542	43,380	53,173	39,812	44,844
Cost of goods sold	**(15,748)**	(9,291)[4]	(11,049)	(10,741)	(21,282)	(37,979)	(10,952)	(10,636)
Net Gain on Sarsang Acquisition	**-**	(360)	-	-	360	9,229	50,852	-
General and admin expense	**(1,780)**	(2,865)	(1,575)	(2,486)	(3,361)	(3,682)	(2,275)	(2,359)
Share-based payments	**(997)**	(376)	(315)	(1,151)	(222)	(549)	(212)	(176)
Depreciation and amortization	**(59)**	(58)	(61)	(59)	(58)	(54)	(55)	(55)
Credit loss provision	**2,796**	(305)	(644)	(11,568)	(1,421)	127	(1,492)	(1,897)
Finance cost	**(8,555)**	(9,560)	(8,961)	(9,748)	(9,700)	(9,686)	(11,809)	(8,972)
Finance income	**1,320**	1,691	1,774	2,042	1,923	1,848	2,601	435
Income tax expense	**(58)**	(100)	(15)	(30)	(20)	(80)	(42)	(14)
Net (loss) / income	**(493)**	**(904)**	**(8,202)**	**(27,199)**	**9,599**	**12,347**	**66,428**	**21,170**
EBITDAX	**14,234**	12,839	5,834	(4,876)	30,227	39,624	32,626	37,339
Net (loss)/income in $ per share								
- Basic	**-**	-	(0.003)	(0.010)	0.003	0.004	0.024	0.009
- Diluted	**-**	-	(0.003)	(0.009)	0.003	0.004	0.023	0.008

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

Summary of Principal Changes in the First Quarter Financial Information

The $0.5 million net loss generated in Q1 2024 was primarily driven by the continuing impact of the ITP shutdown, which resulted in lost revenue. The income and expenses in Q1 2024 are explained in more detail in the following sections.

[4] Cost of goods sold in Q4 2023 included an annual depletion correction credit of $3.9 million, as during the year the depletion charge is estimated and then adjusted at Q4 to be in line with the year end reserves report.

Gross margin on oil sales

USD Thousands	Three months ended March 31, 2024	2023
Revenue from oil sales	22,588	43,380
Lifting costs	(5,500)	(9,461)
Other costs of production	(77)	(109)
Depletion costs	(10,171)	(11,712)
Cost of goods sold	**(15,748)**	**(21,282)**
Gross margin on oil sales	**6,840**	**22,098**

Revenue from oil sales relates to the Company's entitlement share of oil sales from the Atrush and Sarsang blocks. The decrease in revenues in Q1 2024 compared to Q1 2023 was driven by the lower realized sales prices in the local market and lower oil sales compared to the period prior to the ITP closure. The revenue of $22.6 million in Q1 2024 relates to local oil sales from Sarsang and Atrush. The oil prices for local sales are at a significant discount to international benchmark prices. The average net oil price for Q1 2024 was $36.49 per barrel, 40% less compared to the Q1 2023 average net oil price of $60.53 per barrel after deducting the discount for oil quality and transportation costs. The Company's entitlement share of oil sales in Q1 2024 was 0.6 MMbbls, 14% less compared to 0.7 MMbbls in Q1 2023.

Lifting costs comprise 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 were 42% lower in Q1 2024 compared to Q1 2023 due to lower production levels and cost savings achieved after closure of the ITP.

Other costs of production include the Company's share of other costs prescribed under the Atrush and Sarsang production sharing contracts ("PSCs").

Depletion costs have decreased 13% in Q1 2024 compared to Q1 2023 due to reduced oil sales (the depletion costs calculation is based on entitlement barrels sold).

Gross margin on oil sales was significantly lower in Q1 2024 versus Q1 2023 due to lower oil sales and lower oil price realizations in the local market (versus export prices achieved in Q1 2023).

General and administrative expense

USD Thousands	Three months ended March 31, 2024	2023
Salaries and benefits	968	989
Advisory and consulting fees	266	602
General and other office expenses	159	194
Legal, accounting and audit fees	198	1,068
Listing costs and investor relations	105	167
Corporate sponsorship	55	171
Travel expenses	29	170
General and administrative expense	**1,780**	**3,361**
Non-recurring costs	-	1,050
Adjusted G&A	**1,780**	**2,311**

The decrease in general and administrative ("G&A") expenses in Q1 2024 compared to Q1 2023 is due to savings from ongoing cost reduction initiatives. The adjusted G&A shows the impact of the substantial one-off business development legal and consulting fees incurred during Q1 2023.

Finance cost

USD Thousands	Three months ended March 31, 2024	2023
Interest/amortization charges on bonds	8,751	9,723
Amortization of the related-party loan	542	497
Total borrowing costs	**9,293**	**10,220**
Lease interest expense	5	1
Unwinding discount on decommissioning provision	4	(103)
Re-measurement of contingent consideration	(147)	138
Total finance costs before borrowing costs capitalized	**9,155**	**10,256**
Borrowing costs capitalized	(600)	(556)
Total finance cost	**8,555**	**9,700**

Interest and amortization charges relate to the Company's $300 million bond, which has a 4-year tenor maturing in July 2025 and a 12% fixed, semi-annual coupon (the "2025 Bond"). The 2025 Bond amortizes by $22.5 million semi-annually starting in July 2023, and the current outstanding amount is $255 million following the January 2024 amortization.

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

For further information on the Company's borrowings, refer to the discussions in the section below entitled "Borrowings".

Capital Expenditures

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

The net book value of PP&E principally comprises 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., plus development costs related to the Company's share of the Sarsang PSC since the acquisition. The movements in PP&E are explained below:

	Three months ended March 31, 2024			Year ended December 31, 2023		
USD Thousands	Oil and gas assets	Office equipment	Total	Oil and gas assets	Office equipment	Total
Opening net book value	**302,091**	**101**	**302,192**	**302,217**	**167**	**302,384**
Additions	2,807	(2)	2,805	25,725	57	25,782
Depletion and depreciation expense	(10,170)	(27)	(10,197)	(25,851)	(123)	(25,974)
Net book value	**294,728**	**72**	**294,800**	**302,091**	**101**	**302,192**

Financial Position and Liquidity

Accounts receivable

At March 31, 2024, the Company had the following receivables outstanding:

USD Thousands	At March 31, 2024	At December 31, 2023
Accounts receivable on oil sales	91,645	95,474
Credit Loss Provision – transportation costs	(3,695)	(3,695)
Credit Loss Provision	(14,648)	(17,445)
Total accounts receivable	**73,302**	**74,334**

The accounts receivable on oil sales at March 31, 2024, mainly relates to deliveries to the Kurdistan Regional Government ("KRG") from October 2022 through March 2023. The Company continues to discuss the recovery of these receivables with the KRG, but timing is uncertain. 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 recovery scenarios, weighted by the relative probability of these potential outcomes. A relevant discount rate has been applied to reflect counterparty credit risk to provide a reasonable approximation of the fair value of these trade receivables at March 31, 2024. The result of the Company's assessment under IFRS 9 is a $2.8 million adjustment to these trade receivables in Q1 2024, included in the statement of comprehensive income.

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.

Borrowings

The Company's 2025 Bond is partially amortized in instalments, with $22.5 million due every six months starting in July 2023, and the remaining balance due at maturity in July 2025.

At December 31, 2023, the Company owned $28.4 million of its 2025 Bond. In January 2024, $22.5 million of these bonds were cancelled to satisfy the 2025 Bond amortization obligation. At March 31, 2024, the Company held $5.9 million of its own 2025 Bond.

At March 31, 2024, the outstanding principal of the 2025 Bond was $255 million, and $25.3 million of restricted cash was held in a Debt Service Retention Account pledged to the Bond Trustee.

The movements in borrowings are explained below:

USD Thousands	At March 31, 2024	At December 31, 2023
Opening balance	**257,255**	**269,145**
Interest / amortization charges	8,751	38,707
Own bonds cancelled	22,500	2,303
Bond amortization	(22,500)	(22,500)
Payments to bondholders – interest	(16,650)	(30,400)
Ending balance	**249,356**	**257,255**
Non-current portion – net borrowings	193,746	193,746
Current portion – amortization instalments	45,000	45,000
Current portion – accrued bond interest expense	10,610	18,509

Liquidity and Capital Resources

	For the three months ended March 31,	
USD Thousands	2024	2023
Selected liquidity indicators		
Cash flow from operations	18,315	18,266
Working capital	57,088	132,830
Cash in bank	71,555	99,289

Cash flow from operations of $18.3 million for Q1 2024 is inline with the amount reported in the same period of 2023.

Working capital at March 31, 2024, was positive $57.1 million compared to positive $132.8 million at March 31, 2023. The decrease in working capital since March 31, 2023, is principally due to part of the Company's receivables now being classified as a non-current asset due to the uncertainty of recovery timing and the decrease in cash balance.

Cash in bank decreased by $0.2 million in Q1 2024 compared to a decrease of $6.4 million in Q1 2023. The main components of the movement in funds were as follows:

- The operating activities of the Company in Q1 2024 resulted in an increase of $18.3 million in the cash position (Q1 2023: increase of $18.3 million).
- Net cash outflow for investing activities in Q1 2024 was $0.8 million (2023: net cash outflows of $11.5 million). Cash outflows for investing activities comprised $2.1 million for capital investments in the Atrush and Sarsang development work programs net of cash inflows of $1.3 million for interest received.
- Net cash outflows for financing activities in Q1 2024 were $17.6 million (2023: net cash outflows of $13.2 million) and comprised $16.7 million of interest payments to ShaMaran bondholders and $0.9 million of interest payments for the Nemesia loan.

The unaudited condensed 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."

Non-IFRS Accounting Standards Measures

The following tables set out how the Non-IFRS Accounting Standards Measures are calculated from figures shown in the Financial Statements:

EBITDAX

	Three months ended March 31,	
USD Thousands	2024	2023
Revenues	22,588	43,380
Lifting costs	(5,500)	(9,461)
Other costs of production	(77)	(109)
General and administrative expense	(1,780)	(3,361)
Share-based payments	(997)	(222)
EBITDAX	**14,234**	**30,227**

Free cash flow before debt service

	Three months ended March 31,	
USD Thousands	2024	2023
Net cash inflows from operating activities	18,315	18,266
Net cash outflows to investing activities	(812)	(11,529)
Free cash flow before debt service	**17,503**	**6,737**

Net debt

USD Thousands	At March 31, 2024	At December 31, 2023
Cash and cash equivalents, unrestricted	46,231	48,881
Cash and cash equivalents, restricted	25,324	22,841
Company held 2025 Bond	5,900	28,400
Outstanding principal of 2025 Bond	(255,000)	(277,500)
Loan from related party	(15,600)	(15,600)
Net debt	**(193,145)**	**(192,978)**

All figures in the net debt calculation are based on their nominal value at the balance sheet date. See Notes 14 and 15 in the financial statements.

Off Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Transactions with Related Parties

USD Thousands	Purchase of services in the three months ended March 31, 2024	2023	Current amounts owing at the balance sheet dates March 31, 2024	December 31, 2023
Nemesia	542	459	728	1,123
Lundin Foundation	55	65	-	-
International Petroleum Corp.	23	-	25	31
Namdo Management Services Ltd.	22	8	24	-
Orrön Energy AB	10	-	5	-
Total	**652**	**532**	**782**	**1,154**

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 subordinated 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.

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

All transactions with related parties are conducted in the normal course of business and are made on an arm's length basis as with all third parties.

Outstanding Share Data, Share Units and Stock Options

Common shares

The Company had 2,827,448,827 outstanding shares (3,017,823,914 shares fully diluted) at March 31, 2024, and 2,827,448,827 outstanding shares at the date of this MD&A.

Details of share issuance in Q1 2024 are as follows:

- 3,086,670 RSUs vested in March 2024 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.

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 March 31, 2024, a total of 190,375,087 shares, 7% of the issued share capital, had been granted of the possible 282,744,883 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 March 31, 2024, and the date of this MD&A, there are no PSUs outstanding. The DSU Plan exists for non-executive directors of the Company.

During Q1 2024, the Company granted:

(i) 41,110,000 RSUs to certain senior officers and other eligible persons of the Company at a grant-date share price of CAD $0.05;

(ii) 5,239,369 of DSUs to non-executive directors at a grant-date share price of CAD $0.05; and

(iii) 26,540,000 stock options to certain senior officers and other eligible persons of the Company at an exercise price of CAD $0.05.

In Q1 2024, 1,475,335 DSUs were redeemed in cash due to the end of service of a plan participant.

At March 31, 2024, there were 107,403,000 stock options outstanding under the Company's employee incentive Stock Option Plan, which represents 4% of the total shares outstanding at March 31, 2024.

The Company has no warrants outstanding.

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

	Number of stock options outstanding	Number of RSUs outstanding	Number of DSUs outstanding
At December 31, 2023	**80,863,000**	**24,600,002**	**16,584,721**
Granted in the period	26,540,000	41,110,000	5,239,369
DSUs redeemed	-	-	(1,475,335)
RSUs vested	-	(3,086,670)	-
At March 31, 2024	**107,403,000**	**62,623,332**	**20,348,755**
Quantities vested and unexercised:			
At December 31, 2023	44,261,337	-	16,584,721
At March 31, 2024	55,683,008	-	20,348,755

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 March 31, 2024, the outstanding commitments of the Company were as follows:

	For the year ended March 31,				
USD Thousands	2025	2026	2027	Thereafter	Total
Atrush and Sarsang block development and PSC	23,676	166	166	992	**25,000**
Sarsang contingent consideration	-	-	-	15,000	**15,000**
Corporate office and other	32	-	-	-	**32**
Total commitments	**23,708**	**166**	**166**	**15,992**	**40,032**

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. The capital expenditure commitments in the work plan and budgets are contingent upon continuation of local sales. Spending has been reduced by the operators of both blocks due to the ITP closure 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) 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.

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 petroleum 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 2024, all of the Company's development activities are conducted jointly with others.

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 quarter, the Company received oil sales revenues at a negotiated local sales 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 low 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 2023 Annual Information Form, there has not yet been consistent monthly budget allocations paid to the KRG since the enactment of the Federal Budget Law. As at the date of this MD&A, there remains uncertainty as to the amounts and timings of the budget allocation payments, and there continues to be no guarantee that these budget allocations, even if received in full and on time, would be sufficient to cover regular payments per the PSC terms and the outstanding payables to international oil companies.

Continuing export pipeline shutdown

The ITP was closed on March 25, 2023, and remains shut as at the date of this MD&A. It is noted that the recent visit of Iraq Prime Minister Sudani to meet U.S. President Biden at the White House on April 15, 2024, resulted in a joint statement that affirmed the importance of ensuring Iraqi oil can reach international markets and their desire to re-open the ITP. Discussions continue among the relevant parties for the re-opening of the ITP and resumption of oil exports from the KRI as soon as possible. Actions to preserve liquidity through significant deferral of expenditures across the business (see "Business Outlook") are continuing in both the Atrush and Sarsang blocks. The reduction of production from the Atrush and Sarsang blocks to meet local market demands and the lower local sales prices being received represent a continuing risk to the Company's liquidity position. Despite the recent joint statement made from the White House, there can be no certainty when the ITP will re-open for exports and payments at international oil market prices will resume for oil production from the KRI, and the Company is continually monitoring this matter.

Federal Supreme Court of Iraq ruling

As previously noted in the Company's 2023 Annual Information Form, the Federal Supreme Court of Iraq ("FSC") 2022 ruling that the Kurdistan Region's 2007 Oil and Gas Law is unconstitutional and the instruction to the Ministry of Oil ("MoO") to take steps to implement the FSC's decision are still in place. It has been reported that court cases against certain international oil companies and the validity of their Kurdistan PSCs were commenced in a Baghdad commercial court later in 2022, but, as at the date of the MD&A, no enforcement of any such commercial court rulings relating to Kurdistan PSCs has been made, and it is believed that this matter continues to be 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
At the date of this MD&A, all oil production in the KRI, including from the Atrush and Sarsang blocks, is being sold in the domestic market at local sales prices that have not been affected by the Russia-Ukraine or Gaza-Israel conflicts. If these conflicts are still continuing in the future, they may have an adverse impact to the realised pricing in the international oil markets.

The Gaza-Israel conflict does not yet appear to have had any impact on the Company's operations in the 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 2023 Annual Information Form.

ADDITIONAL INFORMATION

Additional information related to the Company, including its 2023 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 six months ending June 30, 2024, on August 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

NON-EXECUTIVE DIRECTORS

Chris Bruijnzeels
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Michael Ebsary
Director

Keith Hill
Director

William Lundin
Director

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Director, President and Chief Executive Officer

Elvis Pellumbi
Chief Financial Officer

Alex Lengyel
Chief Commercial Officer
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STOCK EXCHANGE LISTINGS

Toronto: TSX Venture Exchange

Stockholm: NASDAQ First North Growth Market

Trading Symbol: SNM