SHAMARAN petroleum corp

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Financial Report

For the three months ended March 31, 2021
(UNAUDITED)

The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of the management of the Company. The Company's independent auditor has not performed a review of these financial statements.

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INTRODUCTION

Management's discussion and analysis ("MD&A") of the financial and operating results of ShaMaran Petroleum Corp. (together with its subsidiaries, "ShaMaran" or the "Company") is prepared with an effective date of May 5, 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 months ended March 31, 2021, together with the accompanying notes ("Financial Statements").

Company Overview

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

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").

FIRST QUARTER 2021 HIGHLIGHTS AND KEY EVENTS

2020 was a challenging year, due to the global coronavirus pandemic ("COVID-19")[1] and the collapse of crude oil prices. The first quarter of 2021 has proved to be more positive for the Company as well as the oil industry generally with considerable improvement in oil prices and the gradual increase in business activities due to the global roll-out of COVID-19 vaccinations. In the first quarter of 2021 Atrush field achieved further production milestones while continuing to lower lifting costs. As a result of continued sustained production in the Atrush field and the increase in oil prices, the Company has been able to utilize its free cash to make purchases of the Company's Bonds in the market as permitted by the January 2021 amendment to its Bond terms and as at the date of this MD&A will have retired $10 million of such purchased bonds thereby reducing the Company's December 2021 amortization payment by two-thirds.

Operational Highlights

- Cumulative production of 40 million barrels achieved on January 4, 2021 despite the challenges of the global COVID pandemic with its impact on crude oil prices, and a significantly reduced capital development program in 2020;
- Average production of approximately 38,212 barrels of oil per day ("bopd") for the first quarter of 2021; slightly lower than the 2020 average as expected due to the deferral of capital development wells and as a result of operational interventions aggregated in the first quarter. The current production is now averaging 42,000 barrels per day;
- First quarter 2021 lifting costs per barrel of $5.12 in line with 2021 guidance and a 13% decrease vs Q1 2020 lifting costs due to improved operating efficiencies;
- Atrush Property gross 2P reserves[2] increased to 109.9 MMbbls as at December 31, 2020 from 108.5 in 2019 being a 108% reserves replacement and Company's gross 2P reserves from 29.9 MMbbls to 30.3 MMbbls. A consistent record of reserves replacement year on year since the inception of production.

Financial Highlights

	Three months ended Mar 31	
USD Thousands	**2021**	**2020**
Revenue	20,606	19,841
Gross margin on oil sales	10,254	(930)
Net result	2,469	(125,211)
Cash flow from operations	5,285	1,861
EBITDA	13,500	6,613

- The first quarter of 2021 saw a positive net result of $2.5 million, the first quarter to achieve a positive net income since the COVID-19 pandemic commenced;
- A strong EBITDA of $13.5 million for Q1 2021, more than twice the EBITDA of Q1 2020;
- The KRG has started repayment of the $41.7 million of outstanding receivables for November 2019 to February 2020. At the date of this MD&A $12.9 million has been invoiced to the KRG and $4.4 million has been paid. Full recovery of the KRG receivable is expected within 12 months due to the forecasted oil prices;
- After approval in January 2021 by Bondholders for the Company to buy back its Bonds in the market, as at the date of this MD&A, the Company is pleased to report that it has purchased $10 million of Bonds at commercially attractive rates, these Bonds have been retired. The Company's Bond amortization payment due in December 2021 has accordingly been reduced from $15 million to $5 million and the total of ShaMaran bonds outstanding reduced to $180 million as at the date of the MD&A.

[1]In 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.

[2]Reserves estimates, contingent resource estimates and estimates of future net revenue in respect of ShaMaran's oil and gas assets in the Atrush Block are effective as at December 31, 2020, and are included in the report prepared by McDaniel & Associates Consultants Ltd. (McDaniel), an independent qualified reserves evaluator, in accordance with National Instrument 51-101 – *Standards of Disclosure for Oil and Gas Activities* (NI 51-101) and the Canadian Oil and Gas Evaluation Handbook (the COGE Handbook) and using McDaniel's January 1, 2021 price forecasts. Certain abbreviations and technical terms used in this MD&A are defined or described under the heading "Other Supplementary Information".

OPERATIONS REVIEW

Business Overview

First quarter 2021 witnessed an improvement in world oil prices and ShaMaran, together with its partner in the Atrush Block, is prudently resuming the capital expenditure projects, that were deferred in 2020, and is continuing to monitor financial discipline over expenditures should the oil price recovery not continue. ShaMaran continues to remain cautiously optimistic that worldwide demand for oil will continue to grow so that the resumption of capital expenditures commenced in first quarter 2021 can be continued for the remainder of 2021 in Atrush Block.

The Company sees sustainable 2021 production in the Atrush field and progressing plans which meet the Company's commitment towards the environment. As cited in the Company's guidance for 2021, provided in its news release of February 15, 2021, the Company expects 2021 will again be a year of cash flow harvest and measured capital deployment to continue to give shareholders a clear and socially responsible path to sustained production and reserves maturation.

However, the timing and execution of the Atrush capital expenditure program may also be affected by the availability of third party contractor services in Kurdistan should the relaxation of COVID-19 related travel, quarantine and other related restrictions not continue.

Since first oil occurred in July 2017, Atrush oil production has been consistently delivered to the KRG at the Atrush Block boundary and transported by pipeline for the KRG's onward sale in the international market from Ceyhan, Turkey. ShaMaran is not aware of the official allocation to the KRG of export pipeline capacity to Ceyhan but management expects no change in 2021 on the KRG's ability of export pipeline capacity in Turkey. However, due to possible unforeseen political developments in Iraq, Turkey and/or Kurdistan arrangements currently in place to export oil produced from the Atrush Block may not continue to be in effect. Also, there remains an on-going risk that any renewed tensions in the regional political and security situation could have a material adverse effect on the financial performance of ShaMaran. The Company does note that the approval of the 2021 Iraq federal budget by the Iraq federal parliament in early April 2021 that included the Kurdistan Regional Government's allocation should have a positive financial impact on the Kurdistan Regional Government.

ShaMaran in 2020 faced a liquidity problem but management successfully negotiated terms with our bondholders that have resulted in a stronger financial position for the Company. ShaMaran will continue to implement prudent management of its cashflow in 2021 with an annual corporate budget of $5.6 million, a 30% reduction in spending over 2020.

With the exception of the items set forth above 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.

Operations Overview

COVID-19 Response

The COVID-19 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 Q1 2021, ensuring the continued safety and security of operations staff at this time.

With the continued roll out of vaccination programs worldwide, the Iraqi health minister announced the purchase of Pfizer/BioNTech and AstraZeneca vaccine in January 2021.

The KRG vaccination program was launched on March 4, 2021, and with the ramp-up of these local programs in concert with the global efforts, ShaMaran looks forward to a gradual return to normal, non-pandemic operating conditions before the end of 2022.

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.

Total field unrisked best estimate contingent oil resources ("2C")[3] 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 March 31		Three months ended December 31
	2021	2020	2020
Atrush average daily oil production – gross 100% field (Mbopd)	38.2	46.7	40.8
Atrush oil sales – gross 100% field (Mbbl)	3,439	4,245	3,752
ShaMaran's entitlement in Atrush oil sales (Mbbl)	457	564	498

Atrush production for Q1 2021 was down 19% over Q1 2020 due to the suspension of most of the capital programs in 2020 and various well interventions during Q1 2021. The Atrush production remained relatively flat Q1 2021 compared to Q4 2020.

ShaMaran's entitlement in oil sales in Q1 2021 was down 19% compared to Q1 2020 and down 8% compared to Q4 2020 due to the decreased capital investment and well interventions in Q1 2021, as mentioned above.

Operational Outlook

With improving 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 reiterates 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:
  - Drilling and completion of one highly deviated production well (P-117) with targeted offtake rates of over 4,000 bopd. The P-117 well will be drilled West-South-West from the Chamanke A pad and is expected to recover over 9MM stb 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 enhance 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 barrels of oil per day ("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.

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

FINANCIAL REVIEW

Financial Results

Selected Quarterly Financial Information

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

USD Thousands (except per share data)	Q1 2021	Q4 2020	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019
Continuing operations:								
Revenue	**20,606**	14,081	15,358	7,393	19,841	24,345	18,804	15,071
Cost of goods sold	**(10,352)**	(3,828)[4]	(11,406)	(13,562)	(20,771)	(14,071)	(13,648)	(12,233)
General and admin expense	**(1,543)**	(2,115)	(1,678)	(2,512)	(1,876)	(2,975)	(1,881)	(1,996)
Share based payments	**(665)**	(258)	(283)	(406)	(716)	(205)	(339)	(400)
Depreciation and amortization	**(57)**	(54)	(52)	(50)	(49)	(46)	(52)	(3)
Impairment loss	**-**	-	-	-	(116,164)	-	-	-
Impairment loss – Trade receivables	**-**	(3,201)	-	-	-	-	-	-
Finance cost	**(6,167)**	(6,441)	(4,654)	(5,469)	(5,479)	(5,507)	(5,402)	(5,449)
Finance income	**669**	2	-	1	34	71	112	235
Net gain on Atrush acquisition	**-**	-	-	-	-	-	-	750
Income tax expense	**(22)**	29	(18)	(26)	(31)	(26)	(14)	(43)
Net income / (loss)	**2,469**	**(1,785)**	**(2,733)**	**(14,631)**	**(125,211)**	**1,586**	**(2,420)**	**(4,068)**
EBITDAX	**13,500**	6,614	8,707	(1,882)	6,613	14,833	9,424	6,536
Basic and diluted net inc / (loss) in $ per share	**0.001**	(0.001)	(0.001)	(0.007)	(0.058)	0.001	(0.001)	(0.002)

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

Summary of Principal Changes in the First Quarter Financial Information

The $2.5 million net income in Q1 2021 was primarily driven by the increased gross margin and the decrease in corporate G&A expenses plus the additional finance income. The income and expenses in the first quarter are explained in more detail in the following sections.

The Company generated a strong $13.5 million of EBITDAX in the first quarter of 2021, as shown in the following table, underlining the capacity of the Company to generate positive operational cash.

[4] 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.

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

EBITDAX - Non-IFRS Measures

USD Thousands	Three months ended Mar 31 2021	2020
Revenues	20,606	19,841
Lifting costs	(4,858)	(6,914)
Other costs of production	(40)	(3,722)
General and administrative expense	(1,543)	(1,876)
Share based payments	(665)	(716)
EBITDAX	**13,500**	**6,613**

Gross margin on oil sales

USD Thousands	Three months ended Mar 31 2021	2020
Revenue from Atrush oil sales	20,606	19,841
Lifting costs	(4,858)	(6,914)
Other costs of production	(40)	(3,722)
Depletion costs	(5,454)	(10,135)
Cost of goods sold	**(10,352)**	**(20,771)**
Gross margin on oil sales	**10,254**	**(930)**

Revenue from Atrush oil sales relates to the Company's entitlement share of oil sales from the Atrush Block. The increase in revenues in Q1 2021 as compared to Q1 2020 were driven by higher average net oil prices but were somewhat offset by lower average daily production (38.2 Mbopd vs 46.7 Mbopd). Q1 2021 production was sold at an average net oil price of $45.14 per barrel after deducting $15.78 per barrel average discount for oil quality and transportation costs which compares, respectively, to $35.21 and $15.43 for oil sales made in Q1 2020. The higher oil prices resulted in increased revenues of $4.5 million which was partly offset by $3.8 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 $5.12 per barrel in Q1 2021 (Q1 2020: $5.90 per barrel). The decrease per barrel related mainly to lower diesel and well workover costs in Q1 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 Q1 2021.

Depletion costs per entitlement barrel in Q1 2021 was $11.95 (Q1 2020: $17.99). The decrease is due to the impairment made in Q1 2020 reducing the total asset base to deplete and an 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 Q1 2021 due to the items mentioned above: increased oil prices, lower lifting costs, no production bonus and reduced depletion costs.

General and administrative expense

USD Thousands	Three months ended Mar 31	
	2021	**2020**
Salaries and benefits	794	799
Management and consulting fees	370	579
Listing costs and investor relations	127	99
General and other office expenses	126	106
Legal, accounting and audit fees	121	214
Travel expenses	5	79
General and administrative expense	**1,543**	**1,876**

The reduced general and administrative expense incurred in Q1 2021 compared to Q1 2020 was principally due to lower consulting and legal costs, in 2020 the Company incurred significant one-off legal and consulting fees related to the Company's review of strategic and financial options to address the liquidity risk. Less travel expenditure in Q1 2021 was due to COVID-19.

Share based payments expense

USD Thousands	Three months ended Mar 31	
	2021	**2020**
Option expense	274	588
RSU expense	100	77
DSU expense / (recovery)	291	51
Total share-based payments	**665**	**716**

The share-based payments expense relates to the vesting of stock options, granted deferred share units ("DSUs") and restricted share units ("RSUs"). At March 31, 2021 there was in total 71,463,332 outstanding stock options (March 31, 2020: 60,910,000), 30,636,667 RSUs (March 31, 2020: 32,910,000) granted to certain senior officers and other eligible persons of the Company and 12,406,477 DSUs (March 31, 2020: 7,346,877) granted to ShaMaran's non-executive directors. Also refer to the discussion under the "Outstanding share data, share units and stock options" section below.

Depreciation and amortization expense

USD Thousands	Three months ended Mar 31	
	2021	**2020**
Depreciation and amortization expense	57	49

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 Mar 31	
	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 Mar 31 2021	2020
Net gain from settlement of debt	522	-
Interest on deposits	4	2
Total interest income	**526**	**2**
Foreign exchange gain	143	32
Total finance income	**669**	**34**

The net gain on settlement of debt is due to the Company purchasing its Bonds in the market at commercially attractive rates, as permitted by the January 2021 amendment to the Bond terms, resulting in, as at March 31, 2021, a net gain on settlement of $0.52 million which is included in finance income in the income statement.

Finance cost

USD Thousands	Three months ended Mar 31 2021	2020
Interest charges on bonds at coupon rate	5,529	5,700
Amortization of the related party loan	596	-
Amortization of bond transaction costs	156	32
Total borrowing costs	**6,281**	**5,732**
Lease – interest expense	4	2
Unwinding discount on decommissioning provision	(29)	(9)
Total finance costs before borrowing costs capitalized	**6,256**	**5,725**
Borrowing costs capitalized	(89)	(246)
Finance cost	**6,167**	**5,479**

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 Mar 31 2021	2020
Income tax expense	22	31

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

Capital Expenditure

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

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

	Year ended March 31, 2021			Year ended December 31, 2020		
USD Thousands	Oil and gas assets	Office equipment	Total	Oil and gas assets	Office equipment	Total
Opening net book value	**145,875**	**171**	**146,046**	**207,695**	**208**	**207,903**
Additions	3,188	-	3,188	9,520	2	9,522
Depletion and depreciation expense	(5,454)	(26)	(5,480)	(22,790)	(39)	(22,829)
Impairment	-	-	-	(48,550)	-	(48,550)
Net book value	**143,609**	**145**	**143,754**	**145,875**	**171**	**146,046**

During the first three months of 2021 movements in PP&E were comprised of Atrush block development cost additions of $3.2 million (2020: $9.5 million), which included capitalized borrowing costs of $89 thousand (2020: $908 thousand), net of depletion of $5.5 million (2020: $22.8 million) and an impairment of $nil (2020: $48.6 million) which resulted in a net decrease to PP&E assets of $2.3 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 March 31, 2021 relates to computer software. The opening net book value in 2020 was principally comprised of exploration and evaluation ("E&E") assets which represented the Atrush Block exploration and appraisal costs related to the Company's share of Atrush Block contingent resources as estimated by McDaniel. The movements in Intangible assets are explained as follows:

	Year ended March 31, 2021			Year ended December 31, 2020		
USD Thousands	E&E assets	Software & Licences	Total	E&E assets	Software & Licences	Total
Opening net book value	**-**	**70**	**70**	**67,616**	**33**	**67,649**
Addition / (reversal)	-	1	1	-	51	51
Amortization expense	-	(11)	(11)	-	(14)	(14)
Impairment loss	-	-	-	(67,616)	-	(67,616)
Net book value	**-**	**60**	**60**	**-**	**70**	**70**

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 E&E assets was recoverable. This led to a non-cash impairment charge of $67.6 million which is included in the statement of comprehensive income for the prior year.

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

USD Thousands	At March 31, 2021	At December 31, 2020
Accounts receivable on Atrush oil sales	46,838	38,584
Atrush Exploration Costs receivable	30,176	32,686
Provision for impairment	(3,201)	(3,201)
Total loans and receivables	**73,813**	**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 and at the date of this MD&A $12.9 million has been invoiced to the KRG and $4.4 million has been paid. The Company has reassessed the impairment provision made at 2020 year end which is still deemed appropriate at March 31, 2021.

In the period from the balance sheet date up to the date of this MD&A the Company received $11.4 million in total payments for receivables balances outstanding at March 31, 2021, comprised of $6.9 million in total payments for its entitlement share of oil sales for the month of February 2021, $1.1 million in reimbursements of the Atrush Exploration Costs receivable and $3.4 million for outstanding receivables.

Borrowings

The ShaMaran bonds have one amortization 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 ShaMaran bonds outstanding.

The Company has an obligation under the Bond terms to make a Bond amortization payment of $15 million by December 2021, to reduce the outstanding ShaMaran bonds to $175 million. On January 26, 2021, the Company announced that the Proposal had been approved to permit the Company to use its "free cash", in excess of $15 million, to buy back its Bonds in the market. All Bonds so re-purchased will be retired by the Company. During quarter one, 2021, the Company has re-purchased $4.95 million of Bonds in the market at commercially attractive rates resulting in a net gain. At the date of this MD&A a further $5.05 million of Bonds have been re-purchased and retired. The Company's Bond amortization payment due in December 2021 has accordingly been reduced from $15 million to $5 million ahead of schedule.

The 2020 amended Bond Terms 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.

The movements in borrowings are explained as follows:

USD Thousands	At March 31, 2021	At December 31, 2020
Opening balance	199,561	200,693
Interest charges at coupon rate	5,529	22,800
Amortization of bond transaction costs	157	375
Bond remeasurement	-	(1,505)
Bonds retired	(4,950)	-
Payments to Bondholders – interest and call premiums	(11,497)	(22,802)
Ending balance	**188,800**	**199,561**
Current portion: borrowings	183,622	188,416
Current portion: accrued bond interest expense	5,178	11,145
Non-current portion: borrowings	-	-

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 bond agreement. $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 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 addition, the Company is required to accrue interest on the amount due to Nemesia at an annual rate of 5%. Repayment of the accrued interest and principal by the Company to Nemesia is payable on or before July 5, 2023 and such claim for repayment is subordinated to all obligations under the Company's bond agreement.

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 Q1 2021 $394 thousand (2020 full year $655 thousand) has been transferred into share capital.

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

USD Thousands	At March 31, 2021	At December 31, 2020
Opening balance	**19,214,595**	
Cash received: full amount of the liquidity guarantee	-	22,800,000
FV of the equity component	-	(4,717,855)
Amortization of the liability component	595,911	1,132,450
Ending balance	**19,810,506**	**19,214,595**
Non-current liability: loan from related party	19,810,506	19,214,595

Liquidity and Capital Resources

USD Thousands	Three months ended March 31 2021	2020
Selected liquidity indicators		
Cash flow from operations	5,285	1,861
Cash in bank	18,154	4,646
Negative working capital	(107,453)	(186,984)

Cash flow from operations of $5.3 million for Q1 2021 is up by $3.4 million from $1.9 million reported in Q1 2020 principally due to lower lifting costs and other costs of production in the quarter.

Working capital at March 31, 2021 was negative $107 million compared to negative $187 million at March 31, 2020. The increase in working capital since March 31, 2020 is principally due to the payments for November 2019 through February 2020 oil sales being classed as current receivables as they are expected to be recovered within the year.

The overall cash position of the Company decreased by $10.3 million during the first three months of 2021, a decrease of $10.9 million during the same period of 2020.The main components of the movement in funds were as follows:

- The operating activities of the Company in Q1 2021 resulted in an increase of $5.3 million in the cash position (2020: increase of $1.9 million). The change in cash from operations is explained by the net income of $2.5 million plus $2.8 million of net positive cash adjustments from working capital items.
- Net cash in from investing activities in Q1 2021 were $0.4 million (2020: outflows of $1.3 million). Cash in from investing activities in the Q1 2021 were comprised of $2.1 million out for the investments in the Atrush Block development work program net of cash inflows of $2.5 million in payments by the KRG of Atrush loans and receivables.
- Net cash outflows from financing activities in the quarter were $16 million (2020: cash outflows of $11.4 million) and comprised of the $11.4 million semi-annual interest payments to ShaMaran bondholders in January 2021 and $4.6 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 in the three months ended March 31, 2021	2020	Amounts owing at the balance sheet dates March 31, 2021	December 31, 2020
Nemesia	674	-	971	690
Namdo Management Services Ltd	8	12	-	-
Total	682	12	971	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 issues 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.

Outstanding Share Data, Share Units and Stock options

Common shares

The Company had 2,189,714,867 outstanding shares at March 31, 2021, 2,304,221,343 outstanding shares after dilution and 2,194,274,867 outstanding shares at the date of this MD&A.

Details of share issuance in Q1 2021 and since March 31, 2021 are as follows:

- 6,840,000 common shares were issued in Q1 2021 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".
- On March 3, 2021, 7,006,666 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. Under the share unit plan the Company may grant performance share units ("PSU"), and restricted share units ("RSU"). As at March 31, 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

(i) 8,950,000 RSUs to certain senior officers and other eligible persons of the Company at a grant date share price of CAD 0.051. In Q1 2021 a total of 7,006,666 RSUs vested and the same quantity of shares were issued to plan participants. The Statement of Comprehensive Income includes RSU related charges of $100 thousand (2020: $77 thousand) for the quarter.

(ii) 5,059,600 of DSUs to non-executive directors at a grant share price of CAD 0.05. The Statement of Comprehensive Income includes DSU related charges of $291 thousand for Q1 2021 (2020: $51 thousand). The carrying amount of the DSU liability at March 31, 2021 is $492 thousand.

(iii) 15,590,000 stock options to certain senior officers and other eligible persons of the Company at a strike price of CAD 0.05. In Q1 2020 a total of 4,736,668 were cancelled due to the end of service of grantees. The Statement of Comprehensive Income includes option related charges of $274 thousand (2020: $588 thousand) for the quarter.

At March 31, 2021 there were 71,463,332 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	(4,736,668)	-	-
RSU Shares issued in the period	-	(7,006,666)	-
At March 31, 2021	**71,463,332**	**30,636,667**	**12,406,477**
Quantities vested and unexercised:			
At December 31, 2020	28,950,000	-	7,346,877
At March 31, 2021	45,859,991	-	12,406,477

Contractual Obligations and Commitments

Atrush Block Production Sharing Contract

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

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

	For the year ended March 31,				
USD Thousands	2022	2023	2024	Thereafter	Total
Atrush Block development	29,716	166	166	1,490	31,538
Corporate office and other	137	22	-	-	159
Total commitments	**29,853**	**188**	**166**	**1,490**	**31,697**

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 remaining production bonus payable is $23.3 million at the 50 million barrel milestone (ShaMaran share: $6.43 million) and will not be cash settled but is planned to be treated as an offset against amounts owed to ShaMaran currently by the KRG under the proposed repayment mechanism. 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.

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.

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 bonds as the interest rate is fixed until July 2023.

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

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. 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 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.

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 August 10, 2021 its financial statements 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

Condensed Interim Consolidated Statement of Comprehensive Income (unaudited)

As at March 31, 2021 and December 31, 2020

Expressed in thousands of United States dollars	Note	For the three months ended March 31, 2021	2020
Revenues	5	**20,606**	**19,841**
Cost of goods sold:			
Lifting costs	6	(4,858)	(6,914)
Other costs of production	6	(40)	(3,722)
Depletion	6	(5,454)	(10,135)
Gross margin on oil sales		**10,254**	**(930)**
Impairment loss	12,13	-	(116,164)
Depreciation and amortization expense		(57)	(49)
Share based payments expense	21	(665)	(716)
General and administrative expense	7	(1,543)	(1,876)
Income / (loss) from operating activities		**7,989**	**(119,735)**
Finance income	9	669	34
Finance cost	10	(6,167)	(5,479)
Net finance cost		**(5,498)**	**(5,445)**
Income / (loss) before income tax expense		**2,491**	**(125,180)**
Income tax expense	11	(22)	(31)
Income / (loss) for the period		**2,469**	**(125,211)**
Other comprehensive income			
Items that may be reclassified to profit or loss:			
Currency translation differences		(97)	(18)
Total other comprehensive loss		**(97)**	**(18)**
Total comprehensive income / (loss) for the period		**2,372**	**(125,229)**
Income/ (Loss) in dollars per share:			
Basic and diluted		0.001	(0.060)

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

Condensed Interim Consolidated Balance Sheet (unaudited)

As at March 31, 2021 and December 31, 2020

Expressed in thousands of United States dollars	Note	March 31, 2021	December 31, 2020
ASSETS			
Non-current assets			
Property, plant and equipment	*12*	143,754	146,046
Loans and receivables	*8, 15*	8,083	49,941
Right-of-use asset	*14*	154	199
Intangible assets	*13*	60	70
		152,051	**196,256**
Current assets			
Loans and receivables	*8, 15*	65,730	18,128
Cash and cash equivalents, unrestricted		18,102	16,967
Other current assets		531	571
Cash and cash equivalents, restricted		52	11,451
		84,415	**47,117**
TOTAL ASSETS		**236,466**	**243,373**
LIABILITIES			
Non-current liabilities			
Loan from related party	*18*	19,811	19,215
Provisions	*19*	16,477	15,479
Pension liability		1,385	1,477
Cash-settled deferred share units	21	492	202
Lease liability	14	20	54
		38,185	**36,427**
Current liabilities			
Borrowings	*17*	183,622	188,416
Accrued interest expense on bonds	*17*	5,178	11,145
Accounts payable and accrued expenses	*16*	2,944	3,578
Lease liability	*14*	124	134
Current tax liabilities		-	6
		191,868	**203,279**
EQUITY			
Share capital	*20*	639,110	638,434
Share based payments reserve		8,858	8,766
Loan Share reserve	*18*	3,669	4,063
Cumulative translation adjustment		(47)	50
Accumulated deficit		(645,177)	(647,646)
		6,413	**3,667**
TOTAL EQUITY AND LIABILITIES		**236,466**	**243,373**

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

Signed on behalf of the Board of Directors

/s/Terry L. Allen

Terry L. Allen, Director

/s/Chris Bruijnzeels

Chris Bruijnzeels, Director

Condensed Interim Consolidated Statement of Cash Flow (unaudited)

For the three months ended March 31,

Expressed in thousands of United States dollars	Note	For the three months ended March 31, 2021	2020
Operating activities			
Income / (loss) for the period		**2,469**	**(125,211)**
Adjustments for:			
Borrowing costs – net of amount capitalized		6,192	5,486
Depreciation, depletion and amortization expense		5,511	10,184
Share based payment expense		665	716
Impairment loss	*12,13*	-	116,164
Interest income	*9*	(4)	(2)
Unwinding discount on decommissioning provision		(29)	(9)
Foreign exchange gain		(143)	(32)
Net gain from settlement of debt	*9*	(522)	-
Changes in other current assets		40	11
Changes in current tax liabilities		(6)	3
Changes in accounts payable and accrued expenses		(634)	2,371
Changes in accounts receivables on Atrush oil sales		(8,254)	(7,820)
Net cash inflows from operating activities		**5,285**	**1,861**
Investing activities			
Loans and receivables – payments received	*15*	2,510	2,127
Interest received on cash deposits	*9*	4	2
Purchase of intangible assets		(1)	(5)
Purchase of property, plant and equipment		(2,072)	(3,450)
Net cash inflows from investing activities		**441**	**(1,326)**
Financing activities			
Bonds retired	*9,17*	(4,428)	-
Principal element of lease payments		(32)	(34)
Payments to bondholders - interest	*17*	(11,497)	(11,400)
Net cash outflows to financing activities		**(15,957)**	**(11,434)**
Effect of exchange rate changes on cash and cash equivalents		(33)	15
Change in cash and cash equivalents		**(10,264)**	**(10,884)**
Cash and cash equivalents, beginning of the year		28,418	15,530
Cash and cash equivalents, end of the period*		**18,154**	**4,646**
***Inclusive of restricted cash**		**52**	**50**

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

Condensed Interim Consolidated Statement of Changes in Equity (unaudited)

For the three months ended March 31,

Expressed in thousands of United States dollars	Share capital	Share based payments reserve	Loan Share reserve	Cumulative translation adjustment	Accumulated deficit	Total
Balance at January 1, 2020	**637,688**	**7,241**	**-**	**17**	**(502,810)**	**142,136**
Total comprehensive loss for the period:						
Loss for the period	-	-	-	-	(125,211)	(125,211)
Other comprehensive loss	-	-	-	(18)	-	(18)
Transactions with owners in their capacity as owners:						
Share based payments expense	-	665	-	-	-	665
	-	665	-	(18)	(125,211)	(124,564)
Balance at March 31, 2020	**637,688**	**7,906**	**-**	**(1)**	**(628,021)**	**17,572**
Balance at December 31, 2020	**638,434**	**8,766**	**4,063**	**50**	**(647,646)**	**3,667**
Total comprehensive (loss) / income for the period:						
Income for the period	-	-	-	-	2,469	2,469
Other comprehensive loss	-	-	-	(97)	-	(97)
Transactions with owners in their capacity as owners:						
Share based payments expense (excluding DSU, Note 21)	-	92	-	-	-	92
Loan Shares issued (note 18)	394	-	(394)	-	-	-
RSU Shares issued	282	-	-	-	-	282
	676	92	(394)	(97)	2,469	2,746
Balance at March 31, 2021	**639,110**	**8,858**	**3,669**	**(47)**	**(645,177)**	**6,413**

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

1. General information

ShaMaran Petroleum Corp. ("ShaMaran" and together with its subsidiaries the "Company") is incorporated under the Business Corporations Act, British Columbia, Canada. The address of the registered office is 25th Floor, 666 Burrard Street, Vancouver, British Columbia V6C 2X8. The Company's shares trade on the TSX Venture Exchange and NASDAQ First North Growth Market (Sweden) under the symbol "SNM".

The Company is engaged in the business of oil and gas exploration and development and holds an interest in the Atrush Block production sharing contract ("Atrush PSC") related to a petroleum property located in the Kurdistan Region of Iraq ("Kurdistan"). The Atrush Block is currently in the eighth year of a twenty-year development period with an automatic right to a five-year extension and the possibility to extend for an additional five years. Oil production on the Atrush Block commenced in July 2017.

2. Basis of preparation, going concern and significant accounting policies

a. Basis of preparation

These unaudited condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and the IFRS Interpretations Committee. The significant accounting policies of the Company have been applied consistently throughout the year. The policies applied in these consolidated financial statements are based on IFRS which were outstanding and effective as of May 5, 2021, the date these interim consolidated financial statements were approved and authorized for issuance by the Company's board of directors ("the Board").

The disclosures provided below are incremental to those included with the Company's annual consolidated financial statements. Certain information and disclosures normally included in the Notes to the annual consolidated financial statements have been condensed or have been disclosed on an annual basis only. Accordingly, these interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2020.

b. Going concern

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

Should there be delays to the forecasted receipt of cash from the sale of oil exports or in the magnitude of those cash receipts, which are under the control of the Kurdistan Regional Government ("KRG"), and the Company was unable to defer certain planned cost activities, the Company could require additional liquidity in the next 12 months to fund the forecasted Atrush operating and development costs thereafter. Failure to meet development commitments could put the Atrush PSC and the Company's bond agreements at risk of forfeiture. The Bond Terms were amended during the 2020 financial year to provide for a put option in favour of the Bondholders, exercise of this put option would require immediate and significant additional liquidity. The Bond Terms were also amended with a temporary waiver until July 5, 2021 granted with respect to the existing breach of the financial covenant relating to the equity ratio. Although there may be the possibility that the Company could be in breach of this covenant at July 5, 2021, management thinks there is a very low likelihood of this occurring given the current global context with improved oil prices and sustained oil production.

In case the Company could not secure external financing in sufficient amount and in time to meet its obligations as they come due, the Company may be required to take measures such as divestment of assets and or further renegotiation of its existing debt. Should this not be successful, there is a risk that the Company would be subject to a partial or complete reorganization, or that the Company is declared bankrupt. The potential that the Company's financial resources are insufficient to fund its appraisal, development and production activities for the next 12 months, particularly in case the Company is unable to finance the maturing bonds and coupon interest payment when they come due and or there are any unforeseen delays in receipt of funds from oil sales, indicates a material uncertainty which may cast significant doubt over the Company's ability to continue as a going concern. Therefore, the Company might be unable to realize its assets and discharge its liabilities in the normal course of business. These consolidated financial statements do not include the adjustments that would result if the Company is unable to continue as a going concern.

Refer to Note 17 and 25 for additional information.

c. Significant accounting policies

These condensed interim consolidated financial statements have been prepared following the same accounting policies and methods of application as those in the Company's audited annual consolidated financial statements for the year ended December 31, 2020.

3. Critical accounting judgments and key sources of estimation uncertainty

Areas of critical accounting judgments that have the most significant effect on the amounts recognized in the financial statements are mainly disclosed in Note 4 of the Company's audited consolidated financial statements for the year ended December 31, 2020.

Refer to Notes 2b and 25 for additional information.

4. Business and geographical segments

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

5. Revenues

Revenues relate entirely to the Company's entitlement share of oil from Atrush sold to the KRG during the year to date. The Company holds a 27.6% interest in Atrush. Production from the Atrush field is delivered to the KRG's Feeder Pipeline at the Atrush block boundary for onward export to Ceyhan, Turkey. Gross exported oil volumes from Atrush in the first three months of 2021 were 3.4MMbbls (2020: 4.2MMbbls) and the Company's entitlement share was approximately 0.5MMbbls (2020: 0.6MMbbls) which were sold with an average netback price of $45.14 per barrel (2020: $35.21). Export prices are based on Dated Brent oil price with a discount for estimated oil quality adjustments and all local and international transportation costs. ShaMaran's oil entitlement share is based on export prices and on PSC terms covering allocation of profit oil, cost oil and capacity building bonuses owed to the KRG.

Refer also to Notes 15 and 22.

6. Cost of goods sold

Lifting costs are comprised of the Company's share of expenses related to the production of oil from the Atrush Block including operation and maintenance of wells and production facilities, insurance, and the operator's related support costs. The decrease in 2021 lifting costs in the quarter over the amount in 2020 was mainly due to lower production and reduced diesel costs. Other costs of production include the Company's share of production bonuses paid to the KRG and its share of other costs prescribed under the Atrush PSC. A production bonus of $3.7 million was incurred in the first quarter of 2020, no such bonus was payable in the first quarter of 2021.

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

Refer also to Notes 5 and 12.

7. General and administrative expense

General and administrative expenses principally include the Company's cost of technical and administrative personnel, travel, office, business development and stock exchange listing and regulatory related costs. The reduced general and administrative expense in the first quarter 2021 compared to the quarter 2020 was principally due to lower consulting and legal costs and less travel expenditure due to COVID-19.

Refer also to Note 25.

Expressed in thousands of United States dollars

8. Impairment loss on trade receivables

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 and at the date of these financials $12.9 million has been invoiced to the KRG and $4.4 million has been paid. The Company has reassessed the impairment provision made at year end which is still deemed appropriate at March 31, 2021.

Refer also to Note 15.

9. Finance income

	For the three months ended March 31,	
	2021	**2020**
Net gain on settlement of debt	522	-
Interest on deposits	4	2
Total gain and interest income	**526**	**2**
Foreign exchange gain	143	32
Total finance income	**669**	**34**

The net gain on settlement of debt is due to the Company purchasing its Bonds in the market at commercially attractive rates, as permitted by the January 2021 amendment to the Bond terms, resulting in, as at March 31, 2021, a net gain on settlement of $0.52 million which is included in finance income in the income statement.

Refer also to Note 17.

10. Finance cost

	For the three months ended March 31,	
	2021	**2020**
Interest charges on bonds at coupon rate	5,529	5,700
Amortization of the related party loan	596	-
Amortization of bond transaction costs	156	32
Total borrowing costs	**6,281**	**5,732**
Lease – interest expense	4	2
Unwinding discount on decommissioning provision	(29)	(9)
Total finance costs before borrowing costs capitalized	**6,256**	**5,725**
Borrowing costs capitalized	(89)	(246)
Total finance cost	**6,167**	**5,479**

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

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

Refer also to Note 14.

11. Taxation

The Company's income tax expense relates to a provision for income tax on service income generated in Switzerland.

12. Property, plant and equipment

The net book value of property, plant and equipment ("PP&E") is principally comprised of development costs related to the Company's share of Atrush PSC proved and probable reserves as estimated by the Company's independent qualified reserves evaluator, McDaniel & Associates Consultants Ltd. ("McDaniel"). During the first three months of 2021 movements in PP&E were comprised of additions of $3.2 million (2020: $9.5 million), which included capitalized borrowing costs of $89 thousand (2020: $908 thousand), net of depletion of $5.5 million (2020: $22.8 million) and an impairment of $nil (2020: $48.6 million) which resulted in a net decrease to PP&E assets of $2.3 million.

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

Refer also to Notes 6 and 13.

13. Intangible assets

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

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

Refer also to Note 12.

14. Right-of-use asset and lease liability

The right-of-use asset relates to the three-year office lease for the Company's technical and administrative services office in Vésenaz, Switzerland. At March 31, 2021, the balance sheet shows a value of $154 thousand (2020: $199 thousand) for the right-of-use asset with depreciation in the first three months of 2021 of $19 thousand (2020: $148 thousand), and a total lease liability value of $144 thousand (2020: $188 thousand); split $124 thousand (2020: $134 thousand) as a current liability and $20 thousand (2020: $54 thousand) as a non-current liability. The income statement in the year 2021, includes the depreciation charge of the right-of-use asset of $34 thousand (2020: $32 thousand) plus an interest expense of $4 thousand (2020: $2 thousand) included in the finance cost.

Refer also to Note 10.

Expressed in thousands of United States dollars

15. Loans and receivables

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

	At March 31, 2021	At December 31, 2020
Accounts receivable on Atrush oil sales	46,838	38,584
Atrush Exploration Costs receivable	30,176	32,686
Provision for impairment	(3,201)	(3,201)
Total loans and receivables, net of provision	**73,813**	**68,069**
Current portion	65,730	18,128
Non-current portion	8,083	49,941

At December 31, 2020, $41.7 million of non-current loans and receivables relating to invoices from November 2019 to February 2020 was overdue and required impairment of $3.2 million, as explained in Note 8. Repayment of these receivables commenced in January 2021 invoicing and as at March 31, 2021, $1 million has been recovered with a further $3.4 million received after the balance sheet date. Due to the improved oil prices the Company expects to recover the full nominal value of $41.7 million receivables owed from the KRG within the next 12 months, therefore the receivables have been moved to current. However, since the amount is dependent on the future price of oil the provision for impairment of $3.2 million remains to reflect discounting and credit risk.

In the year 2021 up to the date these financial statements were approved the Company received a total of $11.4 million in payments relating to the loans and receivables balances outstanding at March 31, 2021.

Refer also to Notes 5 and 8.

16. Accounts payable and accrued expenses

	At March 31, 2021	At December 31, 2020
Payables to joint operations partner	1,977	2,067
Accrued expenses	767	983
Trade payables	200	528
Total accounts payable and accrued expenses	**2,944**	**3,578**

Expressed in thousands of United States dollars

17. Borrowings

The ShaMaran bonds have one amortization and carry 12% fixed semi-annual coupon and mature on July 5, 2023. At March 31, 2021 there were $185.05 million of ShaMaran bonds outstanding.

The Company has an obligation under the Bond terms to make a Bond amortization payment of $15 million by December 2021, to reduce the outstanding ShaMaran bonds to $175 million. On January 26, 2021, the Company announced that the Proposal had been approved to permit the Company to use its "free cash", in excess of $15 million, to buy back its Bonds in the market. All Bonds so re-purchased will be retired by the Company. During quarter one, 2021, the Company has re-purchased $4.95 million of Bonds in the market at commercially attractive rates resulting in a net gain. The Company's Bond amortization payment due in December 2021 has accordingly been reduced from $15 million to $10.05 million ahead of schedule.

The 2020 amended Bond Terms 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 of the borrowings continue to be classified as current.

The movements in borrowings are explained as follows:

	3 months ended March 31, 2021	12 months ended December 31, 2020
Opening balance	**199,561**	**200,693**
Interest charges at coupon rate	5,529	22,800
Amortization of bond transaction costs	157	375
Bond remeasurement	-	(1,505)
Bonds retired	(4,950)	-
Payments to Bondholders – interest and call premiums	(11,497)	(22,802)
Ending balance	**188,800**	**199,561**
Current portion: borrowings	183,622	188,416
Current portion: accrued bond interest expense	5,178	11,145

Refer also to Notes 10, 18 and 26.

Expressed in thousands of United States dollars

18. 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 bond agreement. $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 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 draw down the Company is required to issue to Nemesia 2,280,000 ShaMaran shares per month. In addition, the Company is required to accrue interest on the amount due to Nemesia at an annual rate of 5%. Repayment of the accrued interest and principal by the Company to Nemesia is payable on or before July 5, 2023 and such claim for repayment is subordinated to all obligations under the Company's bond agreement.

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 $394 thousand (2020 $655 thousand) has been transferred into share capital.

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

	3 months ended March 31, 2021	12 months ended December 31, 2020
Opening balance	**19,214,595**	**-**
Amortization of the liability component	595,911	1,132,450
Cash received: full amount of the liquidity guarantee	-	22,800,000
FV of the equity component	-	(4,717,855)
Ending balance	**19,810,506**	**19,214,595**
Non-current liability: loan from related party	19,810,506	19,214,595

Refer also to Notes 10, 17, 20, 24 and 26.

19. Provisions

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

20. Share capital

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

The Company's issued share capital is as follows:

	Number of shares	Share capital
At January 1, 2020	**2,160,631,534**	**637,688**
Loan Shares issued	11,400,000	655
RSU Shares issued	3,836,667	91
At December 31, 2020	**2,175,868,201**	**638,434**
Loan Shares issued	6,840,000	394
RSU Shares issued	7,006,666	282
At March 31, 2021	**2,189,714,867**	**639,110**

Expressed in thousands of United States dollars

21. Share based payments expense

The Company has established share unit plans and a share purchase option plan whereby a committee of the Company's Board may, from time to time, grant up to a total of 10% of the issued share capital to directors, officers, employees or consultants. The number of shares issuable under these plans at any specific time to any one recipient shall not exceed 5% of the issued and outstanding common shares of the Company. Under the share unit plans the Company may grant performance share units ("PSU"), restricted share units ("RSU") or deferred share units ("DSU").

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

In the first quarter of 2021, a total of 7,006,666 RSUs vested and the same quantity of shares were issued to plan participants and 4,736,668 stock options were cancelled due to the end of service of plan participants (2020 full year: a total of 3,836,667 RSUs vested and shares were issued, and 22,300,000 stock options and 380,000 RSUs were cancelled or expired).

The result of the movements in the first quarter of 2021, are charges to the Statement of Comprehensive Income for options of $274 thousand (2020: $588 thousand), for RSUs $100 thousand (2020: $77 thousand) and for DSUs $291 thousand (2020: $51 thousand). The carrying amount of the DSU liability at March 31, 2021 is $492 thousand.

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

	Number of share options outstanding	Number of RSUs outstanding	Number of DSUs outstanding
At December 31, 2020	**60,610,000**	**28,693,333**	**7,346,877**
Granted in the year	15,590,000	8,950,000	5,059,600
Expired/cancelled in the year	(4,736,668)	-	-
RSU Shares vested and issued in the year	-	(7,006,666)	-
At March 31, 2021	**71,463,332**	**30,636,667**	**12,406,477**
Quantities vested and unexercised:			
At December 31, 2020	28,950,000	-	7,346,877
At March 31, 2021	45,859,991	-	12,406,477

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

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

Expressed in thousands of United States dollars

22. Financial instruments

Financial assets

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

	Fair value hierarchy [6]	Carrying and fair values [1] At March 31, 2021	At December 31, 2020
Loans and receivables [5]	Level 3	73,813	68,069
Cash and cash equivalents, unrestricted [2]		18,102	16,967
Other receivables [2]		277	354
Cash and cash equivalents, restricted [2]		52	11,451
Total financial assets		**92,244**	**96,841**

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

Financial liabilities

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

	Fair value hierarchy [6]	Carrying values At March 31, 2021	At December 31, 2020
Borrowings [3] [6]	Level 2	183,622	188,416
Related party loan[4]	Level 2	19,811	19,215
Accrued interest on bonds		5,178	11,145
Accounts payable and accrued expenses [2]		2,944	3,578
Current tax liabilities		-	6
Total financial liabilities		**211,555**	**222,360**

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

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

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

[3] The Company estimates the fair value of its borrowings at the balance sheet date is $176 million (December 31, 2020: $171 million) based on recent trades of the Company's bonds.

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

[5] An impairment has been made to the loans and receivables in the prior year, see Note 8 for details.

[6]*Fair value measurements*

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

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

Expressed in thousands of United States dollars

23. Commitments and contingencies

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

	For the year ended March 31,				
	2022	2023	2024	Thereafter	Total
Atrush Block development and PSC	29,716	166	166	1,490	31,538
Corporate office and other	137	22	-	-	159
Total commitments	**29,853**	**188**	**166**	**1,490**	**31,697**

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 remaining production bonus payable is $23.3 million at 50 million barrels (ShaMaran share: $6.43 million) and will not be cash settled but is to be treated as an offset against amounts owed currently by the KRG under the proposed repayment mechanism. This production milestone is expected to be achieved during the second half of 2021. The production bonuses represent an outflow of Company resources as an economic benefit to the KRG, rather than as an exchange for a service, and are therefore accounted for in accordance with *IFRIC 21 Levies* which requires that the obligation be recognized on the date at which the production milestone is reached.

Refer to Note 8.

24. Related party transactions

Transactions with corporate entities

	Purchase of services in the three months ended March 31,		Amounts owing at the balance sheet dates	
	2021	2020	March 31, 2021	December 31, 2020
Nemesia	674	-	971	690
Namdo Management Services Ltd	8	12	-	-
Total	**682**	**12**	**971**	**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 issues shares each month to Nemesia based on the $22.8 million drawn down on the liquidity guarantee and accrue 5% interest based on the principal balance outstanding.

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

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

Refer to Notes 10 ,17 and 18.

25. Impact of COVID-19

In March 2020 the World Health Organization declared a global pandemic following the emergence and rapid spread of a novel strain of the coronavirus ("COVID-19"). The outbreak and subsequent measures intended to limit the pandemic contributed to significant declines and volatility in financial markets. The pandemic adversely impacted global commercial activity, including significantly reducing worldwide demand for crude oil. Since the onset of COVID-19, industry led production curtailment as well as government stimulus programs and other improvements in general economic conditions have resulted in a strengthening of commodity prices. The potential for the COVID-19 pandemic to continue creates an inherent level of uncertainty and may increase ShaMaran's exposure to, and magnitude of, the risks and uncertainties identified in ShaMaran's 2020 Annual Information Form and previous financial reports and management's discussion and analysis that result from a reduction in demand for oil and gas consumption and/or lower commodity prices and/or reliance on third parties. The extent to which COVID-19 impacts ShaMaran's business, results of operations and financial condition will depend on future developments, which are highly uncertain and are difficult to predict, including, but not limited to, the duration and spread of the current and any future COVID-19 outbreaks, their severity, the actions taken to contain such outbreaks or treat their impact, and how quickly and to what extent normal economic and operating conditions resume and their impacts to ShaMaran's business, results of operations and financial condition. Even after the COVID-19 outbreaks have subsided, ShaMaran may continue to experience materially adverse impacts to ShaMaran's business as a result of the global economic impact. ShaMaran continues to monitor this situation and work to adapt its business to further developments as determined necessary or appropriate.

26. Subsequent events

A further 4,560,000 Loan Shares have been issued to Nemesia in accordance with the Company's obligations.

The Company re-purchased and retired a further $5.05 million of bonds, reducing the Company's Bond amortization payment due in December 2021 to $5 million and the total of ShaMaran bonds outstanding to $180 million.

Refer to notes 17,18 and 20.

DIRECTORS

Dr. Adel Chaouch
Director, President and Chief Executive Officer

Chris Bruijnzeels
Director, Chairman

Keith C. Hill
Director

Terry L. Allen
Director

Michael Ebsary
Director

William A.W Lundin
Director

OFFICERS

Dr. Adel Chaouch
Director, President and Chief Executive Officer

Alex Lengyel
Chief Commercial Officer and Corporate Secretary

Suzanne Ferguson
Assistant Corporate Secretary

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INDEPENDENT AUDITORS

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TRANSFER AGENT

Computershare Trust Company of Canada
Vancouver, Canada

STOCK EXCHANGE LISTINGS

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

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