



SHAMARAN
petroleum corp

Q3

SHAMARAN petroleum corp

Financial Report

*For the three and nine months ended September 30,
2020 (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.

MANAGEMENT DISCUSSION AND ANALYSIS

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Management's Discussion and Analysis

For the three and nine months ended September 30, 2020

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 November 5, 2020. The MD&A should be read in conjunction with the unaudited condensed interim consolidated financial statements for the three and nine months ended September 30, 2020, together with the accompanying notes.

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").

Overview of the Company

ShaMaran is a Canadian oil and gas company listed on the TSX Venture Exchange and the NASDAQ First North Growth Market (Sweden) under the symbol "SNM." The Company has a 27.6% ownership interest in Atrush Block, a high-quality oil field in Kurdistan that has a large production base with significant growth potential. As a Lundin Group Company, ShaMaran can leverage the expertise and strength of a group that has been building resource companies around the world for more than 40 years.

Oil production from Atrush commenced in July 2017. Installed production facilities have a capacity of over 50,000 barrels of oil per day ("bopd"). Fourteen wells have been drilled to date and ten wells are currently producing with a year to date 2020 production average of 46,504 bopd. Oil prices in the third quarter of 2020 have recovered and stabilized relative to the volatility in prices which prevailed in the first two quarters of the year following the onset of the coronavirus ("COVID-19")¹ pandemic. At that time the Atrush partners reacted quickly to take responsible measures to scale back the development program in the current cycle yet retain the flexibility to allow for the ramp up of development activity in case of strengthening oil prices and at the same time preserve the magnitude and stability of Atrush oil production. Partners have continued to prudently manage Atrush on this basis and Atrush production guidance for 2020 is maintained at 44,000 to 50,000 bopd.

The Atrush Block is located in the Kurdistan Region of Iraq, approximately 85 kilometres northwest of Erbil, the capital of Kurdistan. The Atrush Block is 269 square kilometres in area and has oil proven in Jurassic fractured carbonates in the Chiya Kherr structure. Total discovered oil in place in the Atrush Block is a low estimate of 1.6 billion barrels, a best estimate of 2.0 billion barrels and a high estimate of 2.6 billion barrels.

Atrush is continuously being appraised and further phases of development, including further drilling and possible facilities expansion, will be defined based on production data, appraisal information and economics.

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.

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THIRD QUARTER 2020 HIGHLIGHTS AND KEY SUBSEQUENT EVENTS

At the beginning of the third quarter of 2020 the Company successfully completed measures, initiated in the previous quarter, that resolved the liquidity shortfall and strengthened the liquidity position which enabled the Company to meet its bond obligations and bolster cash on hand for future bond obligations by adding an additional \$11.4 million of funds pledged to bondholders. Also during the third quarter of 2020 average daily production has remained stable at 46.1 Mbopd while lifting cost per barrel has been reduced and spending on development scaled back pending further strengthening of oil prices.

Financial

Liquidity shortfall successfully resolved and strengthened liquidity position:

- On July 5, 2020 the Company and Nordic Trustee AS, acting as bond trustee on behalf of the bondholders, executed an amendment and restatement agreement as well as related supporting documentation which provided for principal changes to previously agreed bond terms which successfully addressed the Company's financial covenant breach and the liquidity shortfall. This enabled the full payment to bondholders of the July 2020 interest payment and has added \$11.4 million of cash pledged to the bondholders for future bond obligations.

Consistent oil sales and entitlement payments:

- The Kurdistan Regional Government of Iraq ("KRG") has in the following month paid for oil deliveries and invoiced entitlements from March to September 2020.
- The KRG has communicated its commitment to future payment of \$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. The Company remains actively engaged with the KRG to progress resolving this matter.

Operations

Strong Atrush production:

- Continued high level of production in Q3 2020 with an average daily production of 46.1 Mbopd compared to a similar level in Q2 2020 production of 46.9 Mbopd. The 2020 sustained high level of production is due to stable contributions from 2019 wells, increased processing capacity at the Early Production Facility ("EPF") as well operational resilience due to early and effective responses to operational challenges posed by the Global COVID-19 pandemic.
- Produced 39% more oil in Q3 2020 compared to Q3 2019 production (46.1 Mbopd vs. 33.2 Mbopd), due to the increased processing capacities installed in September 2019 and additional contributions from new wells, and was within the 2020 production guidance range of 44,000 to 50,000 bopd.

Significant decrease in lifting cost per barrel:

- The average lifting cost per barrel of oil produced from Atrush in the third quarter was \$3.97 per barrel which was significantly down 48% from \$7.62 per barrel in Q3 2019 and down 26% from \$5.36 per barrel in Q2 2020. The significant reduction from Q3 2019 was mainly due to making redundant certain additional costs which were incurred in Q3 2019, including additional costs to manage salt issues, water handling and well workovers, and to spreading certain fixed operating costs over a larger production volume in Q3 2020 which was 39% higher than Q3 2019.

Responsible spending:

- The Company and the operator, TAQA Atrush BV, have agreed and implemented responsible measures to scale back Atrush development spending for 2020 from a planned \$131 million to the current latest estimate of \$33 million while retaining the flexibility to ramp up development with strengthening oil prices.

Improving operational cash flows:

- The Company generated \$4.5 million in cash from operations, and \$9.0 million excluding adjustments for working capital items, in the third quarter of 2020 compared with \$1.6 million, and negative \$1.5 million excluding working capital items in the previous quarter. The higher cash generation was mainly due to improved oil prices and reduced lifting costs.

Reliable COVID-19 procedures:

- The comprehensive COVID-19 action plan, implemented in February 2020, continues with overriding objectives of ensuring personnel safety and wellbeing as well as assuring efficient business continuity. The policies and procedures are being continually refined and improved as Atrush transitions to the "new normal" COVID-19 operating environment.

Corporate

Engagement with stakeholders:

- Dr. Adel Chaouch, President and Chief Executive Officer of ShaMaran, presented to investors at a virtual town hall meeting on Thursday September 24, 2020 underlining managements' commitment to transparency and stakeholder engagement.

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OPERATIONS REVIEW

COVID-19 Response

With the objectives of ensuring operations personnel safety and wellbeing as well as assuring business continuity, a COVID-19 action plan was implemented in February 2020. These policies and procedures initially looked to reduce exposure potential through minimization and deferment of non-critical field activities during Q1 and Q2 of 2020. With Atrush transitioning to the “new normal” COVID-19 operating environment during Q3 2020, field activities have been increasing back towards pre-pandemic levels.

Quarantine procedures and testing have been implemented for all rotating staff, local nationals and expats, and special measures are being taken to ensure staff wellbeing during extended rotations. Field activities are prepared with the consideration and minimization of exposure points as a primary concern and field development planning is being reviewed to suit the changed operating environment.

Key elements of the COVID-19 response strategy remain:

- Maintaining and optimizing the COVID-19 Action Plan implemented in Q1 2020 -
 - Deployment of IT solutions facilitating communications and information sharing.
 - Focus on flexibility to ensure the best outcomes in a physically distanced working environment.
- Anticipation of potential changes and pre-emptive action to ensure staff safety and wellbeing -
 - Work plans adjusted to minimize exposure points.
 - Quarantine procedures and testing implemented for all rotating staff.

Production

	Three months ended Sep 30		Nine months ended Sep 30	
	2020	2019	2020	2019
Atrush average daily oil production – gross 100% field (Mbopd)	46.1	33.2	46.6	29.3
Atrush oil sales – gross 100% field (Mbbbl)	4,244	3,051	12,756	7,992
Shamaran's entitlement in Atrush oil sales (Mbbbl)	563	405	1,660	942

Atrush production for the quarter was up 39% compared to Q3 2019 mainly due to:

- Additional production from new wells Chiya Khere-6, Chiya Khere-10, Chiya Khere-11, Chiya Khere-12, Chiya Khere-13 and Chiya Khere-15.
- Debottlenecking of the Atrush production facility.
- Expansion of the EPF.

Production has been very stable during Q3 2020 with overall uptime exceeding 98%.

Shamaran's entitlement in oil sales, year on year, was up 76% from 2019 to 2020, due to the increased production capacity, mentioned above, and also the larger Atrush interest (27.6% vs 20.1%) from June 2019 onwards.

Facilities

Operations continues to replace more expensive temporary equipment with permanent solutions. Two additional stripping columns were installed in the third quarter at the pad E EPF which now has three stripping columns. The combined units enable the EPF to achieve export specification for hydrogen sulphide without the requirement for production chemicals.

Field Development Planning

The planned 2020 update to the Atrush Field Development Plan (“FDP”) has now been deferred to 2021 in order to ensure that all elements of the proposed plan will be operationally and economically feasible considering the challenges now envisaged from COVID-19.

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Reserves and Resources

The Company reported estimated reserves and contingent resources for the Atrush field as at December 31, 2019, as reported by the Company's independent reserves and resources evaluator, McDaniel & Associates Consultants Ltd ("McDaniel").

Total field proven plus probable ("2P") reserves on a Company gross basis for Atrush increased from 21.3 million barrels reported as at December 31, 2018, to 29.9 million barrels as at December 31, 2019.

Total field unrisks best estimate contingent oil resources ("2C")² on a Company gross basis for Atrush increased from the 2018 estimate of 53.9 million barrels to 67.2 million barrels as at December 31, 2019.

Total discovered oil in place in the Atrush block is a low estimate of 1.6 billion barrels, a best estimate of 2.0 billion barrels and a high estimate of 2.6 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, 2019.

Operational Outlook

The updated guidance for 2020 is as follows:

- Atrush field gross average daily production is expected to range from 44,000 bopd to 50,000 bopd. Final 2020 production will depend principally on well, facility and export pipeline uptimes and any unanticipated complications arising from the COVID-19 pandemic.
- Average lifting costs are estimated to range from \$4.50 per barrel to \$5.10 per barrel (from previous guidance range of \$5.50 per barrel to \$6.70 per barrel).
- Atrush gross capital expenditures for 2020 are estimated at \$28 million (\$8 million net to ShaMaran) for previously commenced facility improvements and planning, including the design of facilities designed to eliminate gas flaring at Atrush, an important initiative in environmentally responsible operations.
- The KRG has committed to paying for monthly production and entitlements invoiced each following month starting with March 2020. The KRG has honored the commitment with most recent invoice payment of \$5.4 million for September deliveries received on October 29, 2020.

Business Overview

Ownership and Principal Terms of the Atrush PSC

Ownership

ShaMaran, through its wholly owned subsidiary, General Exploration Partners, Inc. ("GEP"), holds a 27.6% interest in the Atrush PSC. The other interests in Atrush are held by TAQA Atrush B.V. ("TAQA" a subsidiary of Abu Dhabi National Energy Company PJSC, and the "Operator" of the Atrush Block) with a 47.4% interest and the KRG a 25% interest. TAQA and GEP together are the "Non-Government Contractors" to the Atrush PSC. The Non-Government Contractors and the KRG together are the "Contractors" to the Atrush PSC.

For additional background and history on Atrush ownership please refer to the Company's Annual Information Form for the year ended December 31, 2019, 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.

Principal Terms of the Atrush PSC

Under the terms of the Atrush PSC, the development period is for 20 years beginning October 1, 2013 with an automatic right to a five-year extension and the possibility to extend for an additional five years. All qualifying petroleum costs incurred by the Contractors shall be recovered from a portion of available petroleum production, defined under the terms of the Atrush PSC. All modifications to the Atrush PSC are subject to the approval of the Non-Government Contractors and the KRG.

Fiscal terms under the Atrush PSC include a 10% royalty and a variable profit split based on a percentage share to the KRG. GEP has the right to recover costs using up to 40% of the available oil (produced oil less royalty oil) and 55% of the produced gas. The Contractors are entitled to cost recovery in respect of all costs and expenditures incurred for exploration, development, production and decommissioning operations, as well as certain other allowable direct and indirect costs.

The portion of profit oil available to the Contractors is based on a sliding scale from 32% to 16% depending on the "R-Factor," which is a ratio of cumulative revenues to cumulative costs. When the ratio is below one, the Contractors are entitled to 32% of profit oil, with a reducing scale to 16% when the ratio is greater than 2.75. In respect of gas, the sliding scale is from 40% to 22%.

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

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Business Outlook

The Company has taken swift and decisive action to scale back development yet retain the flexibility to ramp development back up pending further strengthening of the underlying macro economic factors. The Company continues to work with Atrush partners to plan for the continued development of the significant Atrush resource base with measures to update the Field Development Plan having commenced. At the same time the Company continues to investigate and screen opportunities with a view to extending value for stakeholders.

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)	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018
Continuing operations:								
Revenue	15,358	7,393	19,841	24,345	18,804	15,071	12,071	14,531
Cost of goods sold	(11,406)	(13,562)	(20,771)	(14,071)	(13,648)	(12,233)	(10,307)	(15,969)
General and admin expense	(1,678)	(2,512)	(1,876)	(2,975)	(1,881)	(1,996)	(1,580)	(1,913)
Share based payments	(283)	(406)	(716)	(205)	(339)	(400)	-	-
Depreciation and amortization	(52)	(50)	(49)	(46)	(52)	(3)	(2)	(1)
Impairment loss	-	-	(116,164)	-	-	-	-	-
Finance cost	(4,654)	(5,469)	(5,479)	(5,507)	(5,404)	(5,449)	(9,067)	(7,347)
Finance income	-	1	34	71	114	235	408	900
Net gain on Atrush acquisition	-	-	-	-	-	750	-	-
Income tax expense	(18)	(26)	(31)	(26)	(14)	(43)	(18)	(25)
Net (loss) / income	(2,733)	(14,631)	(125,211)	1,586	(2,420)	(4,068)	(8,495)	(9,824)
 EBITDAX	 8,707	 (1,882)	 6,613	 14,833	 9,424	 6,536	 5,585	 6,908
Basic and diluted net (loss) / inc in \$ per share	(0.001)	(0.007)	(0.058)	0.001	(0.001)	(0.002)	(0.004)	(0.005)

Earnings before interest, tax, depreciation, amortisation, and exploration expense ("EBITDAX")³ 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 Third Quarter Financial Information

The \$2.7 million net loss in Q3 2020 was primarily driven by a reduced revenue base, owing to lower Brent oil prices in the quarter, which was consumed by cost of sales, general and admin expenses and financing costs in the period. The Company generated a strong \$8.7 million of EBITDAX in the period, as explained in the following section, underlining the capacity of the Company to generate positive operational cash in a lower oil price environment.

Third quarter income and expenses are explained in more detail in the following sections.

³ Non-IFRS measures do not have any standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other public companies. Non-IFRS measures should not be considered in isolation or as a substitute for measures prepared in accordance with IFRS. The Corporation uses non-IFRS measures to provide investors with supplemental measures

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EBITDAX - Non-IFRS Measures

USD Thousands	Three months ended Sep 30		Nine months ended Sep 30	
	2020	2019	2020	2019
Revenues	15,358	18,804	42,592	45,946
Lifting costs	(4,650)	(6,418)	(17,875)	(16,016)
Other costs of production	(40)	(742)	(3,808)	(2,189)
General and administrative expense	(1,678)	(1,881)	(6,066)	(5,457)
Share based payments	(283)	(339)	(1,405)	(739)
EBITDAX	8,707	9,424	13,438	21,545

Gross margin on oil sales

USD Thousands	Three months ended Sep 30		Nine months ended Sep 30	
	2020	2019	2020	2019
Revenue from Atrush oil sales	15,358	18,804	42,592	45,946
Lifting costs	(4,650)	(6,418)	(17,875)	(16,016)
Other costs of production	(40)	(742)	(3,808)	(2,189)
Depletion costs	(6,716)	(6,488)	(24,056)	(17,983)
Cost of goods sold	(11,406)	(13,648)	(45,739)	(36,188)
Gross margin on oil sales	3,952	5,156	(3,147)	9,758

Revenue from Atrush oil sales relates to the Company's entitlement share of oil sales from Atrush. The decrease in revenues between the third quarter of 2020 and 2019 were driven by lower average net oil prices between the periods but were somewhat offset by higher average daily production (46.1Mbopd vs 33.1Mbopd). Third quarter 2020 production was sold at an average net oil price of \$27.26 per barrel after deducting \$15.78 per barrel average discount for oil quality and transportation costs which compares, respectively, to \$46.43 and \$15.43 for oil sales made in the third quarter of 2019. The higher Atrush production resulted in increased revenues of \$7.4 million (39%) which was offset by \$10.8 million of negative impact on revenues due to sales of oil at a lower average price by \$19.17 per barrel.

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 was \$3.97 per barrel in Q3 2020 (Q3 2019: \$7.62 per barrel). The decrease per barrel related to lower total lifting costs which in Q3 2019 included additional costs to manage salt issues, water handling and well workovers, and to spreading the fixed operating costs over the larger production volume in the third quarter of this year which was 39% higher than in Q3 2019.

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 first nine months of 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.

Depletion costs per entitlement barrel in Q3 2020 was \$11.92 (Q3 2019: \$16.02). The decrease is due to a number of factors, most notably, an increase in reserves determined in the 2019 yearend reserves report which spread depletion cost over more barrels, the decrease of the asset base due to the quarter one impairment and the increase in the Company's entitlement production between the periods.

Gross margin on oil sales was lower in Q3 2020 by \$1.2 million mainly due to the decrease in revenues related to lower oil prices and higher depletion costs related to 39% higher production in the period. The higher production in the period also had the effect of generating additional oil sales revenue which contributed positively to the gross margin as did significantly lower lifting costs per barrel.

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General and administrative expense

USD Thousands	Three months ended Sep 30		Nine months ended Sep 30	
	2020	2019	2020	2019
Salaries and benefits	796	591	2,405	2,599
Management and consulting fees	560	789	2,251	1,585
Listing costs and investor relations	76	52	252	234
General and other office expenses	128	90	335	269
Legal, accounting and audit fees	106	288	717	577
Travel expenses	12	71	106	193
General and administrative expense	1,678	1,881	6,066	5,457

The lower general and administrative expense incurred in Q3 2020 compared to the same period of 2019 was principally due to reduced costs for technical and legal consultants, Q3 2019 additional consultancy costs were related to an increase in the Company's business development activities, these savings more than offset any additional costs between the quarters. Significant higher management and consulting fees in the nine months 2020 compared to the same period of 2019 is related to the Company reviewing strategic and financial options to address the liquidity risk.

Share based payments expense

USD Thousands	Three months ended Sep 30		Nine months ended Sep 30	
	2020	2019	2020	2019
Option expense	218	330	1,071	511
RSU expense	5	32	215	32
DSU expense / (recovery)	60	(23)	119	196
Total share-based payments	283	339	1,405	739

The share-based payments expense relates to the vesting of stock options, granted deferred share units ("DSUs") and restricted share units ("RSUs"). At September 30, 2020 there was in total 60,610,000 outstanding stock options (September 30, 2019: 47,070,000), 28,693,333 RSUs (September 30, 2019: 11,660,000) granted to certain senior officers and other eligible persons of the Company and 7,346,877 DSUs (September 30, 2019: 2,880,212) granted to ShaMaran's non-executive directors. The Company uses the fair value method of accounting for stock options, DSUs and RSUs whereby the fair value of all the grants is ultimately charged to operations. The fair value of common share options granted is estimated on the date of grant using the Black-Scholes option pricing model. DSUs and RSUs are initially fair valued on the grant date, thereafter DSUs are revalued on each balance sheet date due. 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 Sep 30		Nine months ended Sep 30	
	2020	2019	2020	2019
Depreciation and amortization expense	52	52	151	57

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. The increase from 2019 to 2020 in the 9 months is due to the purchase of new furniture and IT equipment in the new Swiss office and the treatment of the Swiss office lease under the new 2019 accounting standard IFRS 16 Leases. A right-of-use asset for the lease has been recognised on the balance sheet and is depreciated over the term of the lease.

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Impairment loss

USD Thousands	Three months ended Sep 30		Nine months ended Sep 30	
	2020	2019	2020	2019
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 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 Sep 30		Nine months ended Sep 30	
	2020	2019	2020	2019
Interest on deposits	-	12	3	309
Interest on Atrush Development Cost Loan	-	36	-	241
Interest on Atrush Feeder Pipeline Cost Loan	-	33	-	169
Total interest income	-	81	3	719
Foreign exchange gain	-	33	-	36
Total finance income	-	114	3	755

Both the Atrush Development Cost Loan and the Atrush Feeder Pipeline Cost Loan were fully repaid in 2019.

Interest on deposits represents bank interest earned on cash, investments and restricted cash held in interest bearing funds. The decrease in interest income reported to date in 2020 relative to the amount reported in 2019 is due to a higher level of interest-bearing funds held in 2019.

Finance cost

USD Thousands	Three months ended Sep 30		Nine months ended Sep 30	
	2020	2019	2020	2019
Interest charges on bonds at coupon rate	5,700	5,700	17,037	17,653
Amortization of the related party loan	542	-	542	-
Amortization of bond transaction costs	151	33	216	815
Bond remeasurement	(1,506)	-	(1,505)	2,131
Total borrowing costs	4,887	5,733	16,290	20,599
Foreign exchange loss	14	-	65	-
Lease – interest expense	4	1	8	1
Unwinding discount on decommissioning provision	(11)	(8)	3	1
Total finance costs before borrowing costs capitalized	4,894	5,726	16,366	20,601
Borrowing costs capitalized	(240)	(322)	(731)	(683)
Finance cost	4,654	5,404	15,635	19,918

Borrowing costs are capitalized where they are directly attributable to the acquisition of, and preparation for their intended use, Atrush development assets. 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". The increase in capitalized borrowing costs in the third quarter of 2020 compared to the third quarter of 2019 is due to fewer development projects having been completed for their intended use between these two reporting periods.

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Income tax expense

USD Thousands	Three months ended Sep 30		Nine months ended Sep 30	
	2020	2019	2020	2019
Income tax expense	18	14	75	75

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. The increase in tax expense reported in the third quarter of 2020 compared to 2019 is primarily due to higher taxable income in the Company's Swiss subsidiary which increased due to higher costs of service.

Capital Expenditure

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

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

USD Thousands	Nine months ended Sep 30, 2020			Year ended December 31, 2019		
	Oil and gas assets	Office equipment	Total	Oil and gas assets	Office equipment	Total
Opening net book value	207,695	208	207,903	195,897	11	195,908
Additions	7,155	2	7,157	25,971	224	26,195
Atrush acquisition	-	-	-	11,549	-	11,549
Depletion and depreciation expense	(24,056)	(33)	(24,089)	(25,722)	(27)	(25,749)
Impairment	(48,550)	-	(48,550)	-	-	-
Net book value	142,244	177	142,421	207,695	208	207,903

During the first nine months of 2020 movements in PP&E were comprised of Atrush block development cost additions of \$7.2 million (2019: \$37.7 million), which included capitalized borrowing costs of \$731 thousand (2019: \$683 thousand), net of depletion of \$24.1 million (2019: \$25.7 million) and an impairment of \$48.6 million (2019: nil) which resulted in a net decrease to PP&E assets of \$65.5 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 nine months ended September 30, 2020.

Capital Expenditures on Intangible Assets

The net book value of intangible assets at September 30, 2020 relates to computer software. The net book value at December 30, 2019 was principally comprised of exploration and evaluation ("E&E") assets which represented the Atrush Block exploration and appraisal costs related to the Company's share of Atrush Block contingent resources as estimated by McDaniel. The movements in Intangible assets are explained as follows:

USD Thousands	Nine months ended Sep 30, 2020			Year ended December 31, 2019		
	E&E assets	Software & Licences	Total	E&E assets	Software & Licences	Total
Opening net book value	67,616	33	67,649	67,825	4	67,829
Addition / (reversal)	-	7	7	(209)	39	(170)
Amortization expense	-	(11)	(11)	-	(10)	(10)
Impairment loss	(67,616)	-	(67,616)	-	-	-
Net book value	-	29	29	67,616	33	67,649

During the first nine months of 2020 movements in E&E assets related to an impairment loss (year 2019: reversal \$209 thousand mainly due to the release of an overestimate of insurance costs).

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 nine months ended September 30, 2020.

Management's Discussion and Analysis

For the three and nine months ended September 30, 2020

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 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 and 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 September 30, 2020, the Company had loans and receivables outstanding as follows:

	Nine months ended	Year ended
USD Thousands	September 30, 2020	December 31, 2019
Accounts receivable on Atrush oil sales	37,624	35,535
Atrush Exploration Costs receivable	35,301	41,782
Total loans and receivables	72,925	77,317

In the period from the balance sheet date up to the date of this MD&A the Company received \$5.4 million in total payments for receivables balances outstanding at September 30, 2020, comprised of \$4.5 million in total payments for its entitlement share of oil sales for the month of September 2020 and \$0.9 million in reimbursements of the Atrush Exploration Costs receivable.

The KRG has communicated its commitment to future payment of \$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; however, since definitive repayment terms have not yet been established this amount is reported on the Company's balance sheet as non-current.

Borrowings

The ShaMaran bonds have a five-year maturity with one amortization and carry 12% fixed semi-annual coupon and mature on July 5, 2023. The Company paid \$11.4 million in cash for interest payments to the bondholders on January 5, 2020 and again on July 5, 2020. At September 30, 2020 there were \$190 million of ShaMaran bonds outstanding.

On July 5, 2020, the Company and the Bond Trustee on behalf of the Bondholders executed an amendment and restatement agreement as well as related supporting documentation which provided for principal changes to previously agreed bond terms as follows:

- Full and final discharge of the liquidity guarantee given by Nemesia S.à.r.l. ("Nemesia"), a company controlled by a trust settled by the estate of the late Adolf H. Lundin, agreed in favor of the Bond Trustee (for the benefit of the Bondholders) in consideration for Nemesia making a payment of \$22.8 million to the Company's Debt Service Retention Account ("DSRA");
- \$11.4 million of the amounts credited to the DSRA were used by the Company to pay the interest on the Bonds due on the interest payment date in July 2020, while the residual \$11.4 million will remain in the DSRA as restricted cash to provide credit support for any future payment obligations of the Company under the Bond Terms;
- The Company's obligations to make the \$15 million amortization payment due on July 5, 2020 has been deferred until December 5, 2021, and substituted with a cash sweep mechanism whereby the Company, on each interest payment date, will use any amount exceeding a free cash amount of \$15 million in repayment of the Bonds, and any amount of free cash so used to redeem Bonds will correspondingly reduce the deferred amortization payment amount; and
- Temporary waiver until July 5, 2021 granted with respect to the existing breach of the financial covenant relating to the equity ratio.

In conjunction with the temporary waivers of the amortization payment requirement and financial covenant breach, the Bond Terms were amended to provide for a put right in favor 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 consent by holders of 50.01% of the Bonds. The amendments to the ShaMaran bonds agreement in July 2020, most notably the deferral of the \$15 million amortization payment, has resulted in changes to expected future cashflows related to the bonds and requires the Company, in accordance with IFRS 9 Financial Instruments, to re-measure the carrying value of the bond debt. The value of the ShaMaran bonds has been determined based on the net present value of future cash flows, discounted at the original effective interest rate resulting in a gain of \$1.5 million which has been included as an offset to finance cost in the statement of comprehensive income in three months ended September 30, 2020.

Management's Discussion and Analysis

For the three and nine months ended September 30, 2020

The movements in borrowings are explained as follows:

USD Thousands	Nine months ended September 30, 2020	Year ended December 31, 2019
Opening balance	200,693	250,797
Interest charges at coupon rate	17,037	23,417
Amortization of bond transaction costs	216	848
Bond remeasurement	(1,506)	2,131
Bond transaction costs	-	(150)
Bonds retired	-	(50,000)
Payments to Bondholders – interest and call premiums	(22,800)	(26,350)
Ending balance	193,640	200,693
Current portion: borrowings	-	15,000
Current portion: accrued bond interest expense	5,383	11,147
Non-current portion: borrowings	188,257	174,546

The remaining contractual obligations under the ShaMaran bonds on the balance sheet date, which are comprised of the repayment of principal and interest expense based on undiscounted cash flows at payment date and are based on the current \$190 million of bonds outstanding until December 2021 when ShaMaran bonds outstanding are required to be reduced to \$175 million are as follows:

Less than one year	22,800
From one to two years	36,745
From three to four years	196,000
Total	255,545

Loan from related party

On July 2, 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 5, 2020 bond coupon interest payment of the same amount and the remaining \$11.4 million of funds have been deposited in a bank account pledged to the bondholders. It is expected these funds will be used to pay coupon interest due on January 5, 2021. In exchange for the drawdown of funds the Company is required under the terms of its agreement with Nemesia to repay the drawdown amount, plus interest and to issue common shares of the Company which has resulted in a non-current liability at the balance sheet date measured in accordance with IFRS as explained hereafter.

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. IAS 32 Financial Instruments Presentation requires that the component parts be accounted for and presented separately. The split is made at issuance and will not be revised for subsequent changes in market interest rates or share prices. The fair value of the liability component of \$18.1 million at initial drawdown has been determined based on the net present value of future cash flows, is amortized over the three-year term using the effective interest rate of 13.19% and is presented on the balance sheet as "loan from related party". The fair value of the equity component of \$4.7 is presented on the balance sheet as "loan share reserve". As Nemesia are issued the Company shares each month the loan share reserve value will be transferred into share capital on a straight-line basis.

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

USD Thousands	Nine months ended September 30, 2020	Year ended December 31, 2019
Opening balance	-	-
Cash received: full amount of the liquidity guarantee	22,800,000	-
FV of the equity component	(4,717,855)	-
Amortization of the liability component	541,820	-
Ending balance	18,623,965	-
Non-current liability: loan from related party	18,623,965	-

Management's Discussion and Analysis

For the three and nine months ended September 30, 2020

Liquidity and Capital Resources

USD Thousands	Nine months ended September 30	
	2020	2019
Selected liquidity indicators		
Cash flow from operations	7,510	12,747
Cash in bank	22,432	20,027
Positive working capital	29,909	45,770

Cash flow from operations of \$7.5 million for the nine months ended September 30, 2020 is down by \$5.2 million from \$12.7 million reported in the same period of 2019 principally due to \$38.4 million relating to reduced margins on significantly lower oil prices (average netback price per entitlement barrel \$25.66 v \$48.79) which has more than offset the \$35 million of positive cash flow effects relating to higher production (average daily production 46.6 Mbopd v 29.3 Mbopd).

Working capital at September 30, 2020 was positive \$29.9 million compared to positive \$45.8 million at September 30, 2019. The decrease in working capital since September 30, 2019 is principally due to the delay in payments for November 2019 through February 2020 oil sales.

The overall cash position of the Company increased by \$6.9 million during the 9 months of 2020, compared with a decrease of \$72.4 million during the same period of 2019. The main components of the movement in funds were as follows:

- The operating activities of the Company during the first nine months of 2020 resulted in an increase of \$7.5 million in the cash position (2019: increase of \$12.7 million). The change in cash from operations is explained by the net loss of \$142.6 million less \$150.1 million of net positive cash adjustments from working capital items, net borrowing costs and non-cash expenses including the \$116 million net loss on the asset impairment.
- Net cash outflows from investing activities in 2020 were \$0.5 million (2019: outflows of \$8.8 million). Cash outflows from investing activities in the first nine months of 2020 were comprised of \$7.0 million for the Atrush acquisition net of cash inflows of \$6.5 million in payments by the KRG of Atrush loans and receivables, and \$0.03 million of interest on deposits.
- Net cash outflows from financing activities in the first nine months were \$0.1 million (2019: cash outflows of \$76.4 million) and comprised of the \$22.8 million of cash inflows of the Nemesia guarantee drawdown, offset by \$22.9 million of cash outflows, mainly the semi-annual interest payments to ShaMaran bondholders in January 2020 and July 2020.

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

Off Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Transactions with Related Parties

USD Thousands	Purchase of services for periods ended Sep 30,				Amounts owing	
	Three months		Nine months		At the balance sheet dates	
	2020	2019	2020	2019	Sep 30, 2020	Dec 31, 2019
Nemesia	534	-	534	-	403	-
Namdo Management Services Ltd	13	13	37	38	-	-
Total	547	13	551	38	403	-

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

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

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

Management's Discussion and Analysis

For the three and nine months ended September 30, 2020

Outstanding Share Data, Share Units and Stock options

Common shares

On August 6, 2020, 2,280,000 Loan Shares were issued a further 2,280,000 Loan Shares were issued on September 4, 2020. 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. On August 12, 2020 a quantity of 3,836,667 Restricted Share Units ("RSUs") vested in accordance with the Company's Share Unit Plan and this quantity of the Company's shares were issued to plan participants on September 25, 2020 (the "RSU Shares"). The carrying value of the shares has been determined based on the Company's closing share price on the vesting date.

The Company had 2,169,028,201 outstanding shares at September 30, 2020, 2,265,6748,411 outstanding shares after dilution. The average outstanding shares during the first nine months of 2020 were 2,169,772,227 before dilution (year 2019: 2,160,505,507) and 2,266,422,438 after dilution (year 2019: 2,222,115,719).

On October 1, 2020 the Company issued 2,280,000 Loan Shares and a further 2,280,000 Loan Shares were issued on [November 4], 2020.

Share units

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"). PSU grants may be awarded annually to employees, directors or consultants ("Participants") based on the fulfilment of defined Company and individual performance parameters. RSU grants may be awarded to Participants annually based on the fulfilment of defined Company performance parameters. RSUs and PSUs will vest based on the conditions described in the relevant grant agreement and, in any case, no later than the end of the third calendar year following the date of the grant. DSU's may be awarded annually to non-employee directors of the Company based on the performance of the Company and vest immediately at the time of grant, DSUs may not be redeemed until a minimum period of three months has passed following the end of service as a director of the Company. The share unit plans provide for redemption of the share units by way of payment in cash, shares or a combination of cash and shares. Under the option plan the term of any options granted under the option plan will be fixed by the Board and may not exceed five years from the date of grant. A four month hold period may be imposed by the stock exchange from the date of grant. Vesting terms are at the discretion of the Board. All issued share options have terms of five years and vest over two years from grant date. The exercise prices reflect trading values of the Company's shares at grant date.

On March 3, 2020, the Company granted a total of 21,250,000 RSUs to certain senior officers and other eligible persons of the Company. The RSU grants were based on the grant date share price of CAD 0.06, vest over a period of three years and are redeemable in cash or shares of the Company up to five years after the grant date. In 2020 a total of 380,000 RSU's were cancelled due to the end of service of a plan participant, a total of 3,836,667 RSUs vested and the same quantity of shares were issued to plan participants. The Statement of Comprehensive Income includes RSU related charges of \$215 thousand (2019: \$32 thousand) for the first nine months of 2020 relating to vesting of 2020 and 2019 RSU grants.

On March 3, 2020, the Company granted a total of 4,466,665 of deferred share units ("DSU") to non-employee directors. The fair value of the DSU's are fully expensed in the period granted, based on the grant date share price of CAD 0.06, at each quarter end the carrying value of the DSU liability is revalued based on the change in the share price, any gains or losses are charged to the Income Statement. In 2019 a total of 3,600,265 DSUs were granted. The total DSU grants resulted in charges to the Statement of Comprehensive Income of \$119 thousand for the first nine months of 2020 (2019: \$196 thousand). The carrying amount of the DSU liability at September 30, 2020 is \$274 thousand. The DSUs 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.

There has been no further change in the number of share units outstanding from September 30, 2020, to the date of this MD&A.

Stock options

On March 3, 2020, the Company granted a total of 35,840,000 stock options to certain senior officers and other eligible persons of the Company. The options vest over a period of two years and are exercisable over a period of five years at a strike price of CAD 0.06 per share. In 2019 a total of 25,070,00 incentive stock options were granted. In 2020 a total of 22,000,000 stock options expired and 300,00 were cancelled due to the end of service of a grant participant. The result of all the option movements was a total charge to the Statement of Comprehensive Income of \$1,071 thousand for the first nine months of 2020 (2019: \$511 thousand).

At September 30, 2020 there were 60,610,000 stock options outstanding under the Company's employee incentive stock option plan. No stock options were exercised in the first nine months of 2020 (year 2019: nil).

The Company has no warrants outstanding.

Management's Discussion and Analysis

For the three and nine months ended September 30, 2020

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

	Number of share options outstanding	Number of RSUs outstanding	Number of DSUs outstanding
At December 31, 2019	47,070,000	11,660,000	2,880,212
Granted in the period	35,840,000	21,250,000	4,466,665
Expired/cancelled in the period	(22,300,000)	(380,000)	-
RSU Shares issued in the period	-	(3,836,667)	-
At September 30, 2020	60,610,000	28,693,333	7,346,877
Quantities vested and unexercised:			
At December 31, 2019	30,356,662	-	2,880,212
At September 30, 2020	28,820,000	-	7,346,877

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 programme on the Atrush Block which commenced on October 1, 2013.

As at September 30, 2020, the outstanding commitments of the Company were as follows:

	For the year ended September 30,				
USD Thousands	2021	2022	2023	Thereafter	Total
Atrush Block development	5,125	166	166	1,656	7,113
Office and other	144	87	-	-	231
Total commitments	5,269	253	166	1,656	7,344

Amounts relating to Atrush Block development represent the Company's unfunded paying interest share of 27.6% of the approved 2020 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).

Management's Discussion and Analysis

For the three and nine months ended September 30, 2020

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.
- Exploration for and evaluation of resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the Company has decided to discontinue such activities in the specific area.
- 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.
- 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.

A substantial portion of the Company's exploration and development activities are conducted jointly with others.

There have been no published independent evaluations of the Company's reserves and resource estimates since the report as at December 31, 2019 provided by McDaniel in February 2020.

Management's Discussion and Analysis

For the three and nine months ended September 30, 2020

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 are measured at amortized cost. 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 amortised 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.

Management's Discussion and Analysis

For the three and nine months ended September 30, 2020

Commodity price risk: The prices that the Company receives for its oil and gas production may have a significant impact on the Company's revenues and cash flows provided by operations. World prices for oil and gas are 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 ICE 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: The substantial portion of the Company's operations require purchases denominated in USD, which is the functional and reporting currency of the Company and the currency in which the Company maintains the substantial portion of its cash and cash equivalents. Certain of its operations require the Company to make purchases denominated in foreign currencies, which are currencies other than USD and correspond to the various countries in which the Company conducts its business, most notably, Swiss Francs ("CHF") and Canadian dollars ("CAD"). As a result, the Company holds some cash and cash equivalents in foreign currencies and is therefore exposed to foreign currency risk due to exchange rate fluctuations between the foreign currencies and the USD. The Company considers its foreign currency risk is limited because it holds relatively insignificant amounts of foreign currencies at any point in time and since its volume of transactions in foreign currencies is currently relatively low. The Company has elected not to hedge its exposure to the risk of changes in foreign currency exchange rates.

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

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

Shamaran is leveraged through bond financing at the corporate level. However, the Company is not exposed to interest rate risks associated with the bonds as the interest rate is fixed until July 2023.

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

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

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

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

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

Management's Discussion and Analysis

For the three and nine months ended September 30, 2020

RISK AND UNCERTAINTIES

Shamaran Petroleum Corp. is engaged in the exploration, 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. If any of the risks described below materialise the effect on the Company's business, financial condition or operating results could be materially adverse.

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 contributes to significant declines and volatility in financial markets. The pandemic adversely impacts 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, although still below levels existing prior to March 2020. 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 2019 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 IPC's business, results of operations and financial condition which could be more significant in upcoming periods as compared to the year to date. 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.

As a result of these developments Shamaran announced revised 2020 Atrush spending plans in April 2020. Shamaran will continue to monitor this situation and work to adapt its business to further developments as determined necessary or appropriate.

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 above, 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.

Management's Discussion and Analysis

For the three and nine months ended September 30, 2020

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 March 3, 2021 its financial statements for the three and twelve months ended December 31, 2020.

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)
For the three and nine months ended September 30,

<i>Expressed in thousands of United States dollars</i>	Note	Three months ended September 30,		Nine months ended September 30,	
		2020	2019	2020	2019
Revenues	5	15,358	18,804	42,592	45,946
Cost of goods sold:					
Lifting costs	6	(4,650)	(6,418)	(17,875)	(16,016)
Other costs of production	6	(40)	(742)	(3,808)	(2,189)
Depletion	6	(6,716)	(6,488)	(24,056)	(17,983)
Gross margin on oil sales		3,952	5,156	(3,147)	9,758
Impairment loss	12,13	-	-	(116,164)	-
Depreciation and amortization expense		(52)	(52)	(151)	(57)
Share based payments expense	20	(283)	(339)	(1,405)	(739)
General and administrative expense	7	(1,678)	(1,881)	(6,066)	(5,457)
Income/(loss) from operating activities		1,939	2,884	(126,933)	3,505
Finance income	8	-	114	3	755
Finance cost	9	(4,654)	(5,404)	(15,635)	(19,918)
Net finance cost		(4,654)	(5,290)	(15,632)	(19,163)
Bargain purchase gain		-	-	-	9,500
Acquisition related costs		-	-	-	(8,750)
Net gain on Atrush acquisition	10	-	-	-	750
Loss before income tax expense		(2,715)	(2,406)	(142,565)	(14,908)
Income tax expense	11	(18)	(14)	(75)	(75)
Loss for the period		(2,733)	(2,420)	(142,640)	(14,983)
Other comprehensive income					
Items that may be reclassified to profit or loss:					
Currency translation differences		21	(12)	(4)	(7)
Re-measurements on defined pension plan		-	-	32	(189)
Total other comprehensive income / (loss)		21	(12)	28	(196)
Total comprehensive loss for the period		(2,712)	(2,432)	(142,612)	(15,179)
Loss in dollars per share:					
Basic and diluted		-	-	(0.07)	(0.01)

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

Condensed Interim Consolidated Balance Sheet (unaudited)
As at September 30, 2020 and December 31, 2019

<i>Expressed in thousands of United States dollars</i>	<i>Note</i>	September 30, 2020	December 31, 2019
ASSETS			
Non-current assets			
Property, plant and equipment	12	142,421	207,903
Loans and receivables	14	56,388	21,386
Right-of-use asset		224	309
Intangible assets	13	29	67,649
		199,062	297,247
Current assets			
Loans and receivables	14	16,537	55,931
Cash and cash equivalents, restricted	17	11,451	50
Cash and cash equivalents, unrestricted		10,981	15,480
Other current assets		416	307
		39,385	71,768
TOTAL ASSETS		238,447	369,015
LIABILITIES			
Non-current liabilities			
Borrowings	16	188,257	174,546
Loan from related party	17	18,624	-
Provisions	18	15,194	15,715
Pension liability		1,013	969
Cash-settled deferred share units	20	274	155
Lease liability		82	171
		223,444	191,556
Current liabilities			
Accrued interest expense on bonds	16	5,383	11,147
Accounts payable and accrued expenses	15	3,900	9,002
Lease liability		131	132
Current tax liabilities		62	42
Borrowings	16	-	15,000
		9,476	35,323
EQUITY			
Share capital	19	638,052	637,688
Share based payments reserve		8,424	7,241
Loan share reserve	17	4,456	-
Cumulative translation adjustment		13	17
Accumulated deficit		(645,418)	(502,810)
		5,527	142,136
TOTAL EQUITY AND LIABILITIES		238,447	369,015

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

Signed on behalf of the Board of Directors

/s/Terry Allen

Terry L. Allen, Director

/s/Chris Bruijnzeels

Chris Bruijnzeels, Director

Condensed Interim Consolidated Statement of Changes in Equity (unaudited)
For the three and nine months ended September 30,

		Three months ended September 30,		Nine months ended September 30,	
<i>Expressed in thousands of United States dollars</i>	Note	2020	2019	2020	2019
Operating activities					
Loss for the period		(2,798)	(2,420)	(142,640)	(14,983)
Adjustments for:					
Depreciation, depletion and amortization expense		6,768	6,540	24,207	18,040
Borrowing costs – net of amount capitalized		4,648	5,411	15,559	19,916
Share based payment expense		283	339	1,405	739
Foreign exchange loss/(gain)	8,9	78	(33)	65	(36)
Impairment loss	12,13	-	-	116,164	-
Re-measurements on defined pension plan		-	-	32	(189)
Bargain purchase gain	10	-	-	-	(9,500)
Interest income	8	-	(81)	(3)	(719)
Unwinding discount on decommissioning provision		(11)	(8)	3	1
Changes in accounts receivables on Atrush oil sales		84	310	(2,089)	(4,274)
Changes in current tax liabilities		5	1	20	9
Changes in pension liability		-	-	(2)	200
Changes in other current assets		(77)	(46)	(109)	1,956
Changes in accounts payable and accrued expenses		(4,493)	(965)	(5,102)	1,587
Net cash inflows from operating activities		4,487	9,048	7,510	12,747
Investing activities					
Loans and receivables – payments received	14	2,604	8,214	6,481	19,512
Interest received on cash deposits	8	-	12	3	309
Purchase of additional interest in Atrush	10	-	-	-	(18,431)
(Purchases)/credits of intangible assets		(1)	(11)	(7)	199
Purchase of property, plant and equipment		(1,515)	(5,349)	(6,950)	(10,381)
Net cash inflows from/(outflows to) investing activities		1,088	2,866	(473)	(8,792)
Financing activities					
Proceeds on loan from related party	17	22,800	-	22,800	-
Bonds retired	16	-	-	-	(50,000)
Payments to bondholders - interest	16	(11,400)	(11,400)	(22,800)	(26,350)
Principal element of lease payments		(36)	(45)	(104)	(45)
Net cash inflows from/(outflows to) financing activities		11,364	(11,445)	(104)	(76,395)
Effect of exchange rate changes on cash and cash equivalents		(31)	(27)	(31)	(3)
Change in cash and cash equivalents		16,908	442	6,902	(72,443)
Cash and cash equivalents, beginning of the period		5,524	19,585	15,530	92,470
Cash and cash equivalents, end of the period*		22,432	20,027	22,432	20,027
*Inclusive of restricted cash		11,451	49	11,451	49

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 and nine months ended September 30,

<i>Expressed in thousands of United States dollars</i>	Share capital	Share based payments reserve	Loan share reserve	Cumulative translation adjustment	Accumulated deficit	Total
Balance at January 1, 2019	637,538	6,495	-	(12)	(489,822)	154,199
Total comprehensive loss for the period:						
Loss for the period	-	-	-	-	(14,983)	(14,983)
Other comprehensive loss	-	-	-	(7)	(189)	(196)
Transactions with owners in their capacity as owners:						
Bond transaction costs	150	-	-	-	-	150
Share based payments expense	-	544	-	-	-	544
	150	544	-	(7)	(15,172)	(14,485)
Balance at September 30, 2019	637,688	7,039	-	(19)	(504,994)	139,714
Balance at December 31, 2019	637,688	7,241	-	17	(502,810)	142,136
Total comprehensive (loss) / income for the period:						
Loss for the period	-	-	-	-	(142,640)	(142,640)
Other comprehensive (loss) / gain	-	-	-	(4)	32	28
Transactions with owners in their capacity as owners:						
Share based payments expense (excluding DSU)	-	1,183	-	-	-	1,183
Reserve for loan shares to be issued	-	-	4,718	-	-	4,718
Loan Shares issued	262	-	(262)	-	-	-
RSU Shares issued	102	-	-	-	-	102
	364	1,183	4,456	(4)	(142,608)	(136,609)
Balance at September 30, 2020	638,052	8,424	4,456	13	(645,418)	5,527

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

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

For the year 2019 and the nine months ended September 30, 2020

Expressed in thousands of United States dollars

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 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 seventh 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 policies applied in these consolidated financial statements are based on IFRS which were outstanding and effective as of November 5, 2020, 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, 2019.

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 realise its assets and liabilities in the normal course of business as they come due.

Refer to Note 24 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, 2019.

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, 2019. Other factors have also been considered for the nine months ended September 30, 2020 due to the current environment.

Refer to Note 24 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. As a result, in accordance with *IFRS 8: Operating Segments*, the Company has presented its financial information collectively for one operating segment.

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

For the year 2019 and the nine months ended September 30, 2020

Expressed in thousands of United States dollars

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 held a 20.1% interest in Atrush up to May 30, 2019 when the Company increased its interest to 27.6%. 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 nine months of 2020 were 12.76MMbbls (2019: 7.99MMbbls) and the Company's entitlement share was approximately 1.7MMbbls (2019: 0.9MMbbls) which were sold with an average netback price of \$25.66 per barrel (2019: \$48.79). 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 Note 14.

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 the third quarter 2020 lifting costs over the amount in the same period of 2019 was due to less well workover costs and reduced production 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 (2019 nil).

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 lower general and administrative expense incurred in the third quarter 2020 compared to the same period of 2019 was principally due to lower consulting costs and less travel expenditure.

8. Finance income

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Interest on deposits	-	12	3	309
Interest on Atrush Development Cost Loan	-	36	-	241
Interest on Atrush Feeder Pipeline Cost Loan	-	33	-	169
Total interest income	-	81	3	719
Foreign exchange gain	-	33	-	36
Total finance income	-	114	3	755

Both the Atrush Development Cost Loan and the Atrush Feeder Pipeline Cost Loan were fully repaid in 2019.

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

For the year 2019 and the nine months ended September 30, 2020

Expressed in thousands of United States dollars

9. Finance cost

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Interest charges on bonds at coupon rate	5,700	5,700	17,037	17,653
Amortization of the related party loan	542	-	542	-
Amortization of bond transaction costs	151	33	216	815
Bond remeasurement	(1,506)	-	(1,506)	2,131
Total borrowing costs	4,887	5,733	16,289	20,599
Foreign exchange loss	14	-	66	-
Lease – interest expense	4	1	8	1
Unwinding discount on decommissioning provision	(11)	(8)	3	1
Total finance costs before borrowing costs capitalized	4,894	5,726	16,366	20,601
Borrowing costs capitalized	(240)	(322)	(731)	(683)
Finance cost	4,654	5,404	15,635	19,918

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

Refer also to Notes 16 and 17.

10. Increase of participating interest in the Atrush block

On May 30, 2019 ShaMaran completed its acquisition of an additional 7.5% participating interest in the Atrush block. Under two separate sale and purchase agreements, done in contemplation of one another, (“SPA”s) ShaMaran’s wholly owned subsidiary, General Exploration Partners, Inc. (“GEP”), acquired directly Marathon Oil KDV B.V.’s (“MOKDV”) full 15% participating interest in the Atrush Block and immediately thereafter sold a 7.5% Atrush participating interest to TAQA Atrush B.V. (“TAQA” and Operator of the Atrush Block), bringing the Company’s total interest in Atrush up to 27.6%. The total consideration paid to complete the acquisition was \$27.2 million, comprised of \$17.4 million paid to Marathon, \$1 million of PSC capacity building bonuses accounts payable paid to the KRG on direct behalf of MOKDV and in conjunction with the payment to MODKV, and \$8.8 million of net acquisition related costs. The \$8.8 million of net acquisition related costs were comprised of \$9.5 million of PSC capacity building bonuses paid to the KRG and \$750 thousand of payments received from TAQA and were not considered part of the purchase price of the acquisition in line with IFRS 3 and have been expensed as incurred within the Statement of Comprehensive Income in 2019. The fair value of the net identifiable assets and liabilities acquired exceeded the \$18.4 million purchase price paid resulting in a bargain purchase gain of \$9.5 million.

11. Taxation

The Company’s income tax expense relates to a provision for income tax on service income generated in Switzerland and is calculated at the effective tax rate of 24% prevailing in this jurisdiction.

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

For the year 2019 and the nine months ended September 30, 2020

Expressed in thousands of United States dollars

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 nine months of 2020 movements in PP&E were comprised of additions of \$7.2 million (2019: \$37.7 million), which included capitalized borrowing costs of \$731 thousand (2019: \$683 thousand), net of depletion of \$24.1 million (2019: \$25.7 million) and an impairment of \$48.6 million (2019: nil) which resulted in a net decrease to PP&E assets of \$65.5 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 nine months ended September 30, 2020.

Refer also to Notes 6 and 13.

13. Intangible assets

The net book value of intangible assets at September 30, 2020 relates to computer software. The net book value at December 30, 2019 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.

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 nine months ended September 30, 2020.

Refer also to Note 12.

14. Loans and receivables

At September 30, 2020, the Company had loans and receivables outstanding as follows:

	At September 30, 2020	At December 31, 2019
Accounts receivable on Atrush oil sales	37,624	35,535
Atrush Exploration Costs receivable	35,301	41,782
Total loans and receivables	72,925	77,317
Current portion	16,537	55,931
Non-current portion	56,388	21,386

The KRG has communicated its commitment to future payment of \$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. However, since definitive repayment terms have not yet been established this amount is included in the non-current portion. The KRG has in the following month paid for oil deliveries from March to September 2020.

Refer also to Note 5.

15. Accounts payable and accrued expenses

	At September 30, 2020	At December 31, 2019
Payables to joint operations partner	3,005	6,828
Accrued expenses	702	1,511
Trade payables	193	663
Total accounts payable and accrued expenses	3,900	9,002

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

For the year 2019 and the nine months ended September 30, 2020

Expressed in thousands of United States dollars

16. Borrowings

The ShaMaran bonds have a five-year maturity with one amortization and carry 12% fixed semi-annual coupon and mature on July 5, 2023. At September 30, 2020 there were \$190 million of ShaMaran bonds outstanding.

On July 5, 2020, the Company and the Bond Trustee on behalf of the Bondholders executed an amendment and restatement agreement as well as related supporting documentation which provided for principal changes to previously agreed bond terms as follows:

- Full and final discharge of the liquidity guarantee given by Nemesia S.à.r.l. ("Nemesia"), a company controlled by a trust settled by the estate of the late Adolf H. Lundin, agreed in favor of the Bond Trustee (for the benefit of the Bondholders) in consideration for Nemesia making a payment of \$22.8 million to the Company's Debt Service Retention Account ("DSRA");
- \$11.4 million of the amounts credited to the DSRA were used by the Company to pay the interest on the Bonds due on the interest payment date in July 2020, while the residual \$11.4 million will remain in the DSRA as restricted cash to provide credit support for any future payment obligations of the Company under the Bond Terms;
- The Company's obligations to make the \$15 million amortization payment due on July 5, 2020 has been deferred until December 5, 2021, and substituted with a cash sweep mechanism whereby the Company, on each interest payment date, will use any amount exceeding a free cash amount of \$15 million in repayment of the Bonds, and any amount of free cash so used to redeem Bonds will correspondingly reduce the deferred amortization payment amount;
- Temporary waiver until July 5, 2021 granted with respect to the existing breach of the financial covenant relating to the equity ratio; and
- In conjunction with the temporary waivers of the amortization payment requirement and financial covenant breach, the Bond Terms were amended to provide for a put right in favor 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 consent by holders of 50.01% of the Bonds.

The amendments to the ShaMaran bonds agreement in July 2020, most notably the deferral of the \$15 million amortization payment, has resulted in changes to expected future cashflows related to the bonds and requires the Company, in accordance with *IFRS 9 Financial Instruments*, to re-measure the carrying value of the bond debt. The value of the ShaMaran bonds has been determined based on the net present value of future cash flows, discounted at the original effective interest rate resulting in a gain of \$1.5 million which has been included as an offset to finance cost in the statement of comprehensive income in three months ended September 30, 2020.

The movements in borrowings are explained as follows:

	9 months ended September 30, 2020	12 months ended December 31, 2019
Opening balance	200,693	250,797
Interest charges at coupon rate	17,037	23,417
Amortization of bond transaction costs	216	848
Bond remeasurement	(1,506)	2,131
Bond transaction costs	-	(150)
Bonds retired	-	(50,000)
Payments to Bondholders – interest and call premiums	(22,800)	(26,350)
Ending balance	193,640	200,693
Current portion: borrowings	-	15,000
Current portion: accrued bond interest expense	5,383	11,147
Non-current portion: borrowings	188,257	174,546

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

For the year 2019 and the nine months ended September 30, 2020

Expressed in thousands of United States dollars

The remaining contractual obligations under the ShaMaran bonds on the balance sheet date, which are comprised of the repayment of principal and interest expense based on undiscounted cash flows at payment date and are based on the current \$190 million of bonds outstanding until December 2021 when ShaMaran bonds outstanding are required to be reduced to \$175 million are as follows:

Less than one year	22,800
From one to two years	36,745
From three to four years	196,000
Total	255,545

Refer also to Notes 9 and 17.

17. Loan from related party

On July 2, 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 5, 2020 bond coupon interest payment of the same amount and the remaining \$11.4 million of funds have been deposited in a bank account pledged to the bondholders. It is expected these funds will be used to pay coupon interest due on January 5, 2021. In exchange for the drawdown of funds the Company is required under the terms of its agreement with Nemesia to repay the drawdown amount, plus interest and to issue common shares of the Company which has resulted in a non-current liability at the balance sheet date measured in accordance with IFRS as explained hereafter.

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. *IAS 32 Financial Instruments Presentation* requires that the component parts be accounted for and presented separately. The split is made at issuance and will not be revised for subsequent changes in market interest rates or share prices. The fair value of the liability component of \$18.1 million at initial drawdown has been determined based on the net present value of future cash flows, is amortized over the three-year term using the effective interest rate of 13.19% and is presented on the balance sheet as "loan from related party". The fair value of the equity component of \$4.7 million is presented on the balance sheet as "loan share reserve". As Nemesia are issued the Company shares each month the loan share reserve value will be transferred into share capital on a straight-line basis.

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

	9 months ended September 30, 2020	12 months ended December 31, 2019
Opening balance	-	-
Cash received: full amount of the liquidity guarantee	22,800,000	-
FV of the equity component	(4,717,855)	-
Amortization of the liability component	541,820	-
Ending balance	18,623,965	-
Non-current liability: loan from related party	18,623,965	-

Refer also to Notes 9, 16, 17, 19 and 23.

18. 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.

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19. 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, 2019	2,158,631,534	637,538
Shares issued as borrowing cost	2,000,000	150
At December 31, 2019	2,160,631,534	637,688
Loan Shares issued	4,560,000	262
RSU Shares issued	3,836,667	102
At September 30, 2020	2,169,028,201	638,052

2,280,000 Loan Shares were issued August 6, 2020 and a further 2,280,000 Loan Shares were issued on September 4, 2020. 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.

On August 12, 2020 a quantity of 3,836,667 Restricted Share Units ("RSUs") vested in accordance with the Company's Share Unit Plan and this quantity of the Company's shares were issued to plan participants on September 25, 2020 (the "RSU Shares"). The carrying value of the shares has been determined based on the Company's closing share price on the vesting date.

Refer to Notes 17, 20 and 23.

20. Share based payments expense

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

	Number of share options outstanding	Number of RSUs outstanding	Number of DSUs outstanding
At December 31, 2019	47,070,000	11,660,000	2,880,212
Granted in the period	35,840,000	21,250,000	4,466,665
Expired/cancelled in the period	(22,300,000)	(380,000)	-
RSU Shares issued in the period	-	(3,836,667)	-
At September 30, 2020	60,610,000	28,693,333	7,346,877
Quantities vested and unexercised:			
At December 31, 2019	30,356,662	-	2,880,212
At September 30, 2020	28,820,000	-	7,346,877

On March 3, 2020, the Company granted a total of 35,840,000 stock options and 21,250,000 RSUs to certain senior officers and other eligible persons of the Company. The options vest over a period of two years and are exercisable over a period of five years at a strike price of CAD 0.06 per share. In 2019 a total of 25,070,00 incentive stock options were granted. In 2020 a total of 22,000,000 stock options expired and 300,000 were cancelled due to the end of service of a plan participant. The result of all the option movements was a total charge to the Statement of Comprehensive Income of \$1,071 thousand for the first nine months of 2020 (2019: \$511 thousand). The RSU grants were based on the grant date share price of CAD 0.06, vest over a period of three years and are redeemable in cash or shares of the Company up to five years after the grant date. In 2020 a total of 380,000 RSU's were cancelled due to the end of service of a plan participant, a total of 3,836,667 RSUs vested and the same quantity of shares were issued to plan participants. The Statement of Comprehensive Income includes RSU related charges of \$215 thousand (2019: \$32 thousand) for the first nine months of 2020 relating to 2020 and 2019 RSU grants.

On March 3, 2020, the Company granted a total of 4,466,665 of deferred share units ("DSU") to non-employee directors. The fair value of the DSU's are fully expensed in the period granted, based on the grant date share price of CAD 0.06, at each quarter end the carrying value of the DSU liability is revalued based on the change in the share price, any gains or losses are charged to the Income Statement. In 2019 a total of 3,600,265 DSUs were granted. The total DSU grants resulted in charges to the Statement of Comprehensive Income of \$119 thousand for the first nine months of 2020 (2019: \$196

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thousand). The carrying amount of the DSU liability at September 30, 2020 is \$274 thousand. The DSUs 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.

21. Financial instruments

Financial assets

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

	Carrying and fair values ¹	
	At September 30, 2020	At December 31, 2019
Loans and receivables ²	37,624	35,535
Cash and cash equivalents, restricted ²	11,451	50
Cash and cash equivalents, unrestricted ²	10,981	15,480
Other receivables ²	114	78
Total financial assets	60,170	51,143

Financial assets classified as other receivables are initially recognised 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 ⁴	Carrying values	
		At September 30, 2020	At December 31, 2019
Borrowings ³	Level 2	188,257	189,546
Related party loan		18,624	-
Accrued interest on bonds		5,383	11,147
Accounts payable and accrued expenses ²		3,900	9,002
Current tax liabilities		62	42
Total financial liabilities		216,226	209,737

Financial liabilities are initially recognised 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 \$165 million (December 31, 2019: \$190 million) based on recent low volume trades of the Company's bonds.

⁴ 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.

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22. Commitments and contingencies

As at September 30, 2020 the outstanding commitments of the Company were as follows:

	For the year ended September 30,				
	2021	2022	2023	Thereafter	Total
Atrush Block development and PSC	5,125	166	166	1,656	7,113
Office and other	144	87	-	-	231
Total commitments	5,269	253	166	1,656	7,344

Amounts relating to Atrush Block development represent the Company's unfunded paying interest share of the approved 2020 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). 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.

23. Related party transactions

Transactions with corporate entities

	Purchase of services for periods ended September 30,				Amounts owing at the balance sheet dates	
	three months		nine months		September 30, 2020	December 31, 2019
	2020	2019	2020	2019		
Nemesia	534	-	534	-	403	-
Namdo Management Services Ltd	13	13	37	38	-	-
Total	547	13	571	38	403	-

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

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

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

Refer to Notes 9, 16 and 17.

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24. 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, although still below levels existing prior to March 2020. 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 2019 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 IPC's business, results of operations and financial condition which could be more significant in upcoming periods as compared to the year to date. 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.

As a result of these developments ShaMaran announced revised 2020 Atrush spending plans in April 2020. ShaMaran will continue to monitor this situation and work to adapt its business to further developments as determined necessary or appropriate.

DIRECTORS

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Director, President and Chief Executive Officer

Chris Bruijnzeels
Director, Chairman

Keith C. Hill
Director

Terry L. Allen
Director

Michael Ebsary
Director

William Lundin
Director

OFFICERS

Dr. Adel Chaouch
Director, President and Chief Executive Officer

Brenden Johnstone
Chief Financial Officer

Alex Lengyel
Chief Commercial Officer and Corporate Secretary

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Assistant Corporate Secretary

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STOCK EXCHANGE LISTINGS

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

ShaMaran Petroleum Corp.

