ShaMaran Petroleum Corp

· Energy · E&P · Credit update · 02 November 2022 · 09:09

Entering its prime

ShaMaran has carried out a game changing acquisition of the Sarsang PSC. Diversification has improved and fiscal terms add further buffers to the credit case. The net acquisition price has come down vs. initial estimates. Production close to nameplate capacity in both PSCs, net entitlement at maximum and high oil prices are all aligned for significant FCF generation going forward. The bond is rapidly being de-risked, and ~16% yield is highly attractive.

Outstanding bonds	Rec	Prior Rec
SNMCN 12 07/30/25	OP	

**) OP - outperform, MP - market perform, UP - underperform, N - not rated*

Outstanding bonds	
Ticker	SNMCN 12 07/30/25
Size	300 USDm
Coupon	12.00%
Maturity	30-Jul-25
Security	Senior Unsecured
Spread / Price	1242.7 / 92.4
Next call Date /	30-Jul-23 / 106

A Kurdish growth story

In a period when the Kurdistan related peers are offering limited growth potential, ShaMaran has shown a willingness to invest and expand its footprint in the region. The Sarsang asset adds significant strength to the credit case in our view and, looking at the oil price development since the transaction announcement, timing was optimal. Both Atrush and Sarsang will be close to peak earnings potential in 2023 and 2024, enabling strong growth in FCF.

Investment case

Given the PSC details and oil quality, the Sarsang stake improves asset backing at lower oil prices. It also increases diversification and adds significant 2C potential. We model 100% asset backing down to Brent prices of USD ~46.5/boe, and operational leverage greatly reduces credit risk for all oil prices above USD 55/boe long term on our forecast. Geopolitical risks have existed ever since the first PSCs in Kurdistan were awarded. The current FCF generation results in rapidly growing buffers against all downside scenarios.

Credit considerations and recommendation

Assuming maximum dividends from 2023, we still model a net cash position from 2024E, and zero refinancing need in 2025 for all long-term oil prices above USD 80/boe. At USD 60/boe long term, we estimate a refinancing need of USD 100m and a corresponding LTV of 36%. We initiate coverage with Outperform, eying a 250-300bps tightening potential vs. peers.

Key Figures (USD)	Dec-19	Dec-20	Dec-21	Dec-22e	Dec-23e
Revenue (m)	70.3	56.7	102.3	187.2	318.4
Adj. EBITDA (m)	37.3	21.7	68.0	154.6	270.1
Net interest (m)	(24.60)	(22.01)	(28.78)	(33.15)	(33.66)
Adj. net profit (m)	(13.3)	(28.2)	13.4	90.5	190.8
Total equity (m)	142.3	3.8	18.6	123.2	267.4
Total assets (m)	369.0	243.4	368.5	475.1	620.6
Gross debt (m)	189.5	188.4	281.0	285.6	285.6
Cash and cash equivalents (m)	15.5	28.4	171.7	132.9	258.7
Net interest bearing debt (m)	174.0	160.0	109.3	152.7	26.9
Cash flow from operations (m)	10.4	(0.8)	65.2	111.4	221.8
Free cash flow to firm (m)	(26.8)	(9.7)	50.0	(48.2)	172.5
EBITDA margin	53.1%	38.3%	66.5%	82.6%	84.8%
EBITDA / Interest (x)	1.47	0.99	2.28	4.56	7.88
NIBD / EBITDA (x)	4.66	7.37	1.61	0.99	0.10
IBD / EBITDA (x)	5.08	8.68	4.13	1.85	1.06
Equity / total assets	38.6%	1.6%	5.0%	25.9%	43.1%
Operating cash flow / IBD	5.5%	(0.4%)	23.2%	39.0%	77.7%
Free cash flow / IBD	(14.2%)	(5.1%)	17.8%	(16.9%)	60.4%

Credit strengths

- Improved diversification
- PSC terms protect against lower oil price scenarios
- High cash flow potential
- Solid track record and backing from Lundin family

Credit weaknesses

- Exposed to Iraq/Kurdistan geopolitical risks
- Relatively high operational leverage
- Sensitive to oil price fluctuations and realized pricing

Øyvind Hagen
+47 22 93 72 21 · oyvind.hagen@arctic.com

Eirik Wensaas
+47 22 93 72 97 · eirik.wensaas@arctic.com

SHAMARAN PETROLEUM

About to enter multi-year prime period

OCTOBER 2022

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SHAMARAN IN BRIEF

COMMENTS

Brief history: ShaMaran was founded in 1991 and is today a 100% Kurdistan focused E&P company. It entered Kurdistan in 2009 and acquired a 33% stake in the operator of Atrush Block (GEP) in 2010, giving it an 20.1% interest in the Atrush PSC. Since that acquisition, ShaMaran increased its stake in the PSC to 27.6% in 2018, when it acquired an additional 7.5% stake from Marathon. In September 2022, the company closed the acquisition of an affiliate of TotalEnergies that holds an 18% stake in the Sarsang PSC. This block is located directly to the north of Atrush block. The total consideration, based on a 01.01.2021 valuation, was USD 155m + a USD 15m earn out + a USD 14m WC adjustment. ShaMaran is part of the Lundin group of companies as its key shareholders are Zebra and Nemesia (~26%), investment entity trusts of the Lundin family.

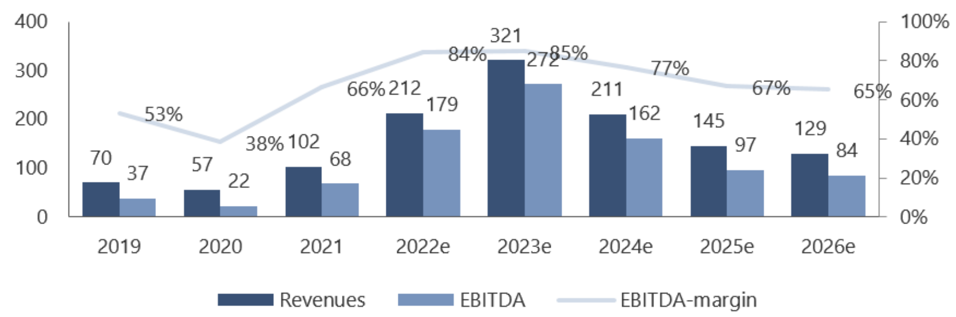
Asset base and valuation: The Atrush field has shown an impressive reserve replacement ratio of 100%+ since first oil in 2017. We do not include any further replacement or 2C upside in our forecast, but still see the field producing until at least 2035. The Sarsang field has just undergone a major upgrade, lifting the nameplate capacity to ~55,000 boepd. In addition, the East Swara Tika reservoir, currently modelled at a production of only 2,500 boepd (capacity constrained), offsets depletion risk on the main Swara Tika reservoir. We estimate a 2P value of USD 483m net to ShaMaran. In addition, we value the 2C upside to USD 32m. Adjusting for working capital etc, gross asset values are assessed at USD 489m with a NAV of USD 336m.

Outstanding debt and liquidity: Following the Sarsang acquisition, ShaMaran currently has one USD 300m 2025 bond outstanding (company holds >10%) in addition to USD 15.6m loan from Nemesia. We model liquidity of USD 133m in Q4'22, growing to USD 259m in Q4'23. In our base case, we model dividends at the maximum permittable level, resulting in a dividend pay out of USD 193m until bond maturity in 2025.

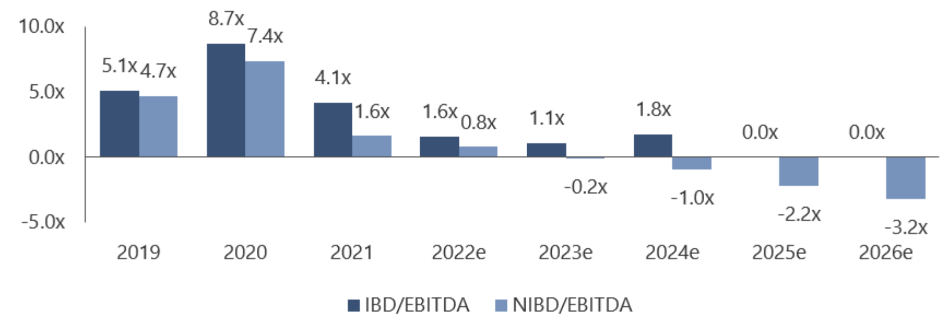
Structural considerations: The ShaMaran bonds are issued on an unsecured basis, with asset coverage >1.25x being the only maintenance covenant. Dividends are restricted to 50% of net profit, and only permitted when NIBD < USD 100m.

Source: Company information, Arctic Securities Research

FINANCIAL DEVELOPMENT (USDM)



CREDIT METRICS



SUSTAINABILITY AND ESG CONSIDERATIONS

Sustainalytics' ESG risk rating*	N/A	Taxonomy eligible activities	✘	Disclosed ESG targets	✘

*0-100 where 0 is best

SUSTAINABILITY AT SHAMARAN

- Protecting and safeguarding the environment is an integrated part of all business decisions of the company. Over the next year, ShaMaran plans to develop a detailed energy transition strategy to achieve net carbon neutrality.
- ShaMaran is committed to making a positive difference in the communities wherever it conducts business and strives to be a partner of choice in the communities where it lives.
- The company commits to the highest professional and ethical standards, and all employees must conduct themselves in accordance with the Code of Conduct and Ethics.

ESG SNAPSHOT AND DISCLOSURE

- ShaMaran has not published any Sustainability Report and has not disclosed any specific sustainability strategy.

Taxonomy alignment:

- Developing and producing oil assets are not taxonomy aligned activities.

Source: Company information, Arctic Securities Research

GREEN INITIATIVES

Corporate sponsor for the Hasar Vision 2025 Program:

- ShaMaran is exclusive corporate sponsor of the Hasar Vision 2025 Program, that will (among other activities) be planting over one million trees in the centre of Erbil, in order to reduce urban pollution. ShaMaran will also be assisting Hasar to secure carbon credit accreditation for the Million Oaks project

Gas flaring reduction:

- ShaMaran, as part of the Atrush joint venture, intends to begin implementing a gas solution that will sweeten gas for displacement of current diesel use in the facilities and will significantly reduce and ultimately eliminate gas flaring in the block.

GOVERNANCE AND SOCIAL INITIATIVES

Governance initiatives includes:

- ShaMaran has adopted a written Code of Business Conduct and Ethics, applicable to directors, officers and all employees of the Corporation

Social initiatives includes:

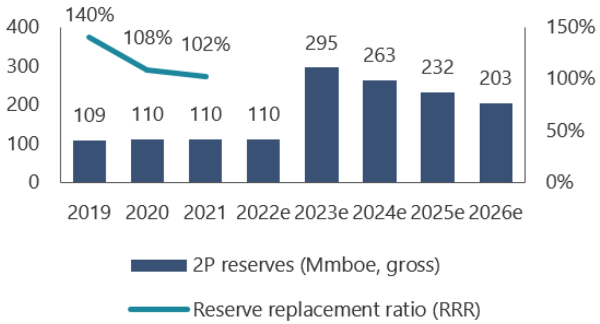
- The Atrush partnership has created and implemented a five-year plan in the Atrush block for local communities. The partnership has already seen positive impact of this plan, with staff localization levels currently greater than 75% and the successful deployment of critical social initiatives centering around education, agriculture, and women and youth

SECTION 1

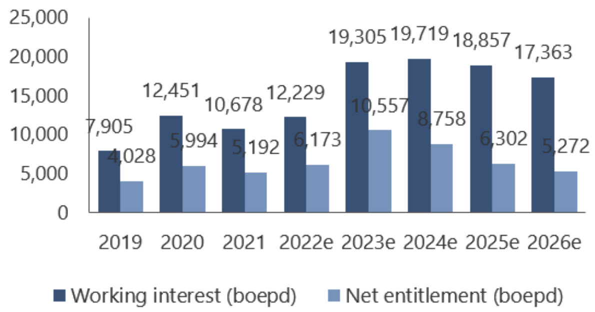
Credit case

SHAMARAN IN SIX CHARTS

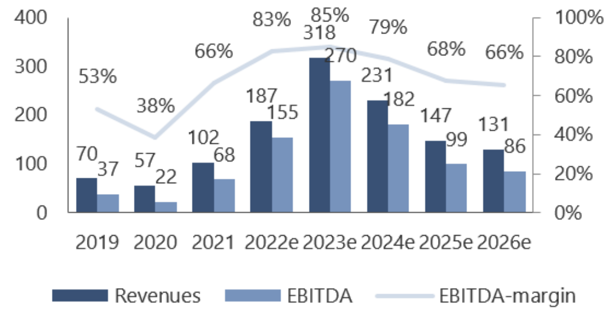
STRONG ASSET BASE WITH >100% RRR



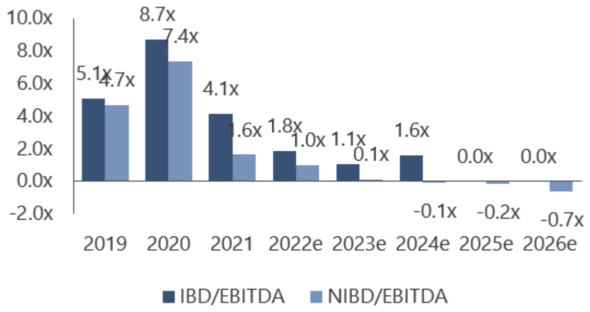
SIGNIFICANT PRODUCTION RAMP UP



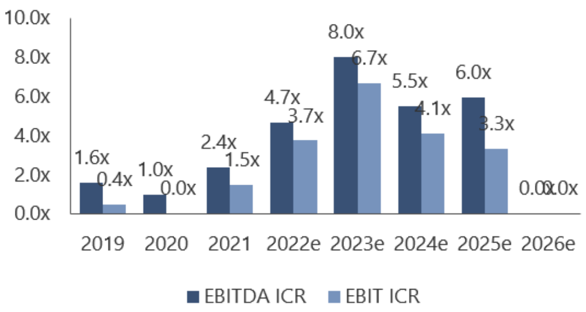
WINDFALL EARNINGS AHEAD



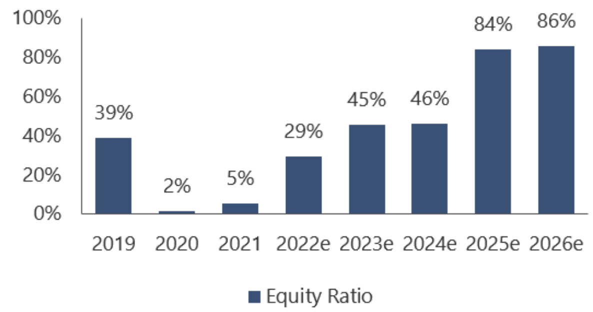
NET CASH IN 2023/24 PRE/POST DIVIDENDS



HIGH DEBT SERVICE CAPABILITIES



DE-LEVERAGING TURN AROUND



Source: Company Information, Arctic Securities Research

STRUCTURAL CONSIDERATIONS

Structural comments

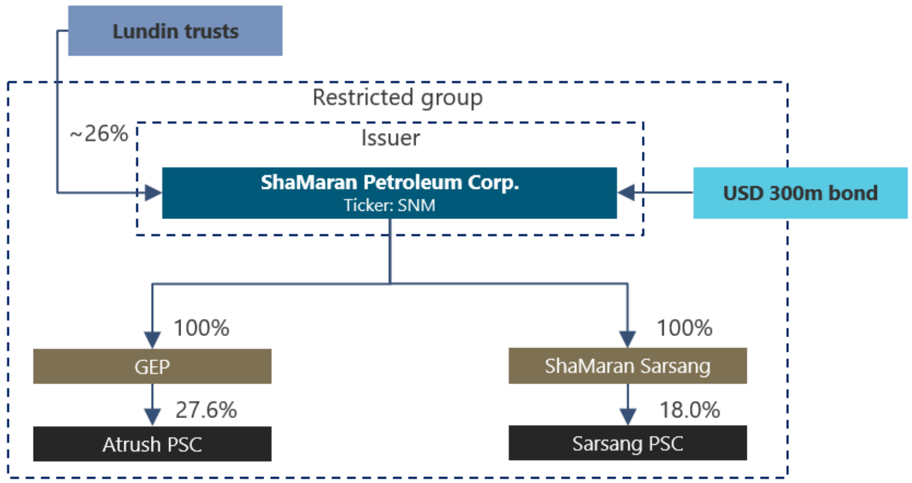
Bond represents the vast majority of the debt: Following the exchange of 2023 bonds into the 2025 bond, the debt structure in ShaMaran is very straightforward. The company has USD 300m of 2025 bonds outstanding, of which >10% are held by the company. In addition it has USD 15.6m in a shareholder loan from Nemesia, which matures six months after the bonds. The shareholder loan carries a 12% cash coupon plus 2% PIK.

Limited risk of subordination: Any additional bond debt is only permitted subject to incurrence tests and with principal repayment after all amounts on the 2025 bond have been repaid in full. Any RBL financing can only be carried out by subsidiaries outside the restricted group (Issuer, ShaMaran Sarsang (Sarsang PSC interest) and GEP (Atrush PSC interest). The USD 15.6m shareholder loan can be retired early, but only subject to dividend incurrence covenants.

Covenant light but with incurrence tests: ShaMaran is obliged to carry out annual reserve assessments, presented in a reserve value report. The NPV10 of the 2P assets is used as the base for the asset coverage maintenance covenant of >1.25x. In order to incur additional debt or pay dividends, the company also has to retain a NIBD/EBITDA of <1.75x. With respect to distributions (including repayment of debt) net debt has to remain below USD 100m post the distribution.

PSC cancellation protection and CoC put: Upon a loss of the Sarsang or Atrush PSC's, a mandatory early redemption event will be triggered, and the bonds are to be redeemed at par. If ShaMaran or its group companies divests any of its direct or indirect holdings in any PSC, bonds are to be redeemed according to the call schedule (MW until Jan 2024). If any person in group gain decisive influence, or the stock stops being listed on a regulated stock exchange, bondholders have the right to put bonds back to the company at 101%.

Organizational chart



Capital structure

				x 2023 EBITDA		
	YE'22e	% of Cap	% of GAV	USD 50	USD 60	USD 70
Bond debt	270	80%	52%	3.30	2.24	1.69
Shareholder loan	15.6	5%	3%	0.19	0.13	0.10
Total debt	**286**	**84%**	**55%**	**3.49**	**2.37**	**1.79**
Cash	133	39%	26%	1.62	1.10	0.83
Net debt	**153**	**45%**	**30%**	**1.87**	**1.27**	**0.96**
Market capitalization	186	55%	36%	2.27	1.54	1.16
Total Capitalization	338	100%	66%	4.14	2.80	2.12

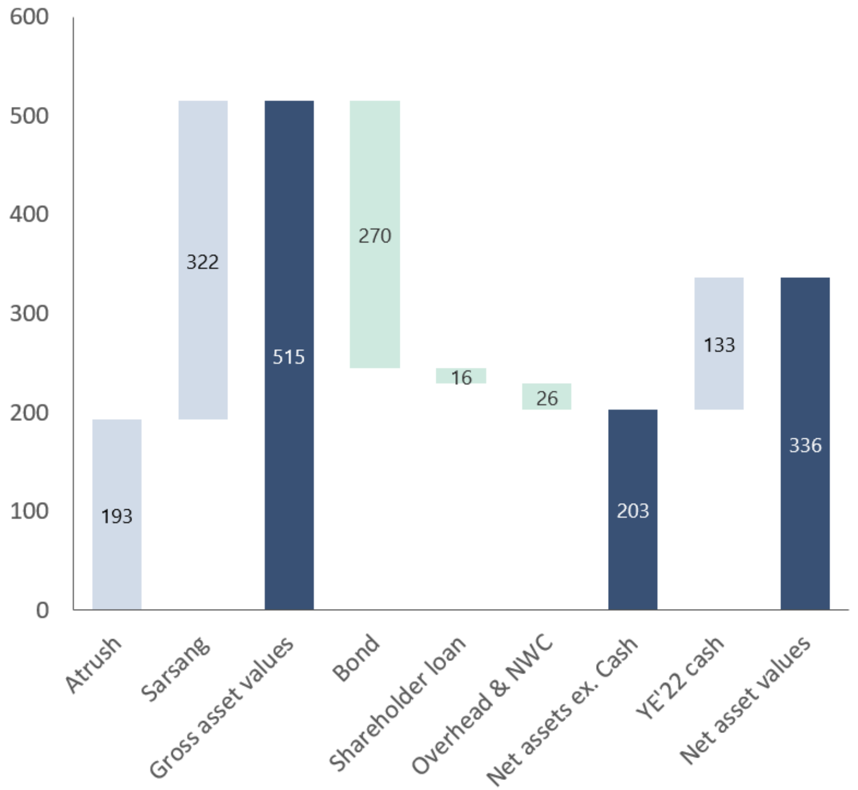
Source: Company Information, Arctic Securities Research

SOTP DETAILS – FRONT-END LOADED FCF AND CUSHION FROM COST OIL BALANCES

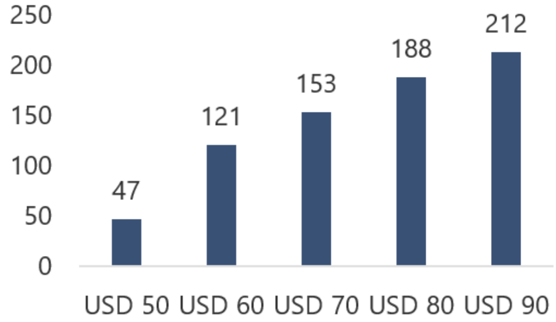
Comments

- We estimate asset values of USD 515m using average USD 95/boe Brent for '23 and '24 and USD 80/boe thereafter. Deducting net outstanding bonds, shareholder loans and SG&A+NWC, results in a net asset value of USD 203m before adding USD 133m in estimated cash at YE'22.
- Due to high production levels, favourable PSC metrics and prevailing high oil prices, ShaMaran is forecast to have a significantly front-end loaded FCF profile, rapidly de-risking our SOTP assessment and the outstanding bonds. Lower oil prices would result in a slower recovery of cost oil balances, which effectively act as a deferred tax receivable.
- Moving our DCF valuation out to Q3'25, we estimate remaining gross asset values on Atrush and Sarsang of USD 224m in our base case scenario. Based on maximum permittable dividend payments of USD 193m until Q3'25, we estimate a cash position of USD 290m at bond maturity. This should result in limited refinancing risk in our view.

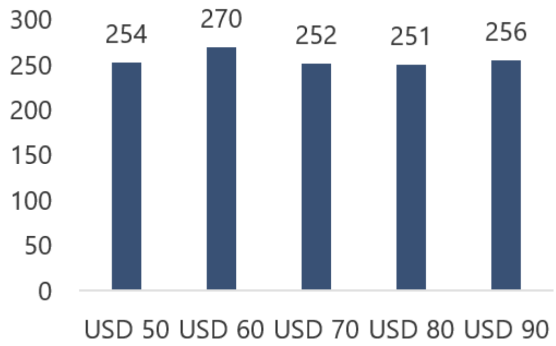
Valuation bridge, USDm



Retained FCF from Q4'22 to Q3'25 (USDm)



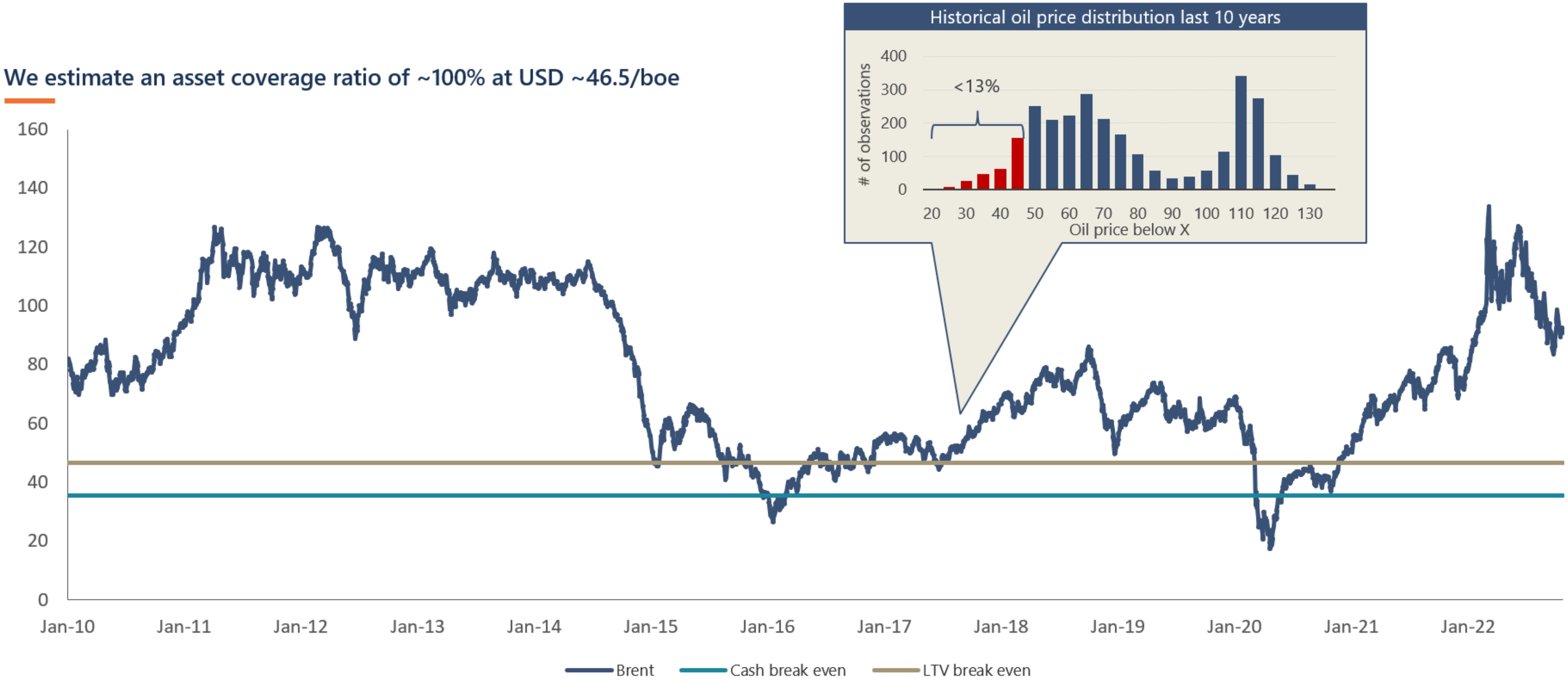
Q3'25 asset values (USDm)



Source: Company Information, Arctic Securities Research

SHAMARAN'S ASSET BACKING HOLDS UP WELL AGAINST THE OIL PRICE

We estimate an asset coverage ratio of ~100% at USD ~46.5/boe



The bonds are covered at USD 46.5/boe with the current capital structure. Over the past 10 years, this corresponds to the bottom 13% percentile of all observed oil prices

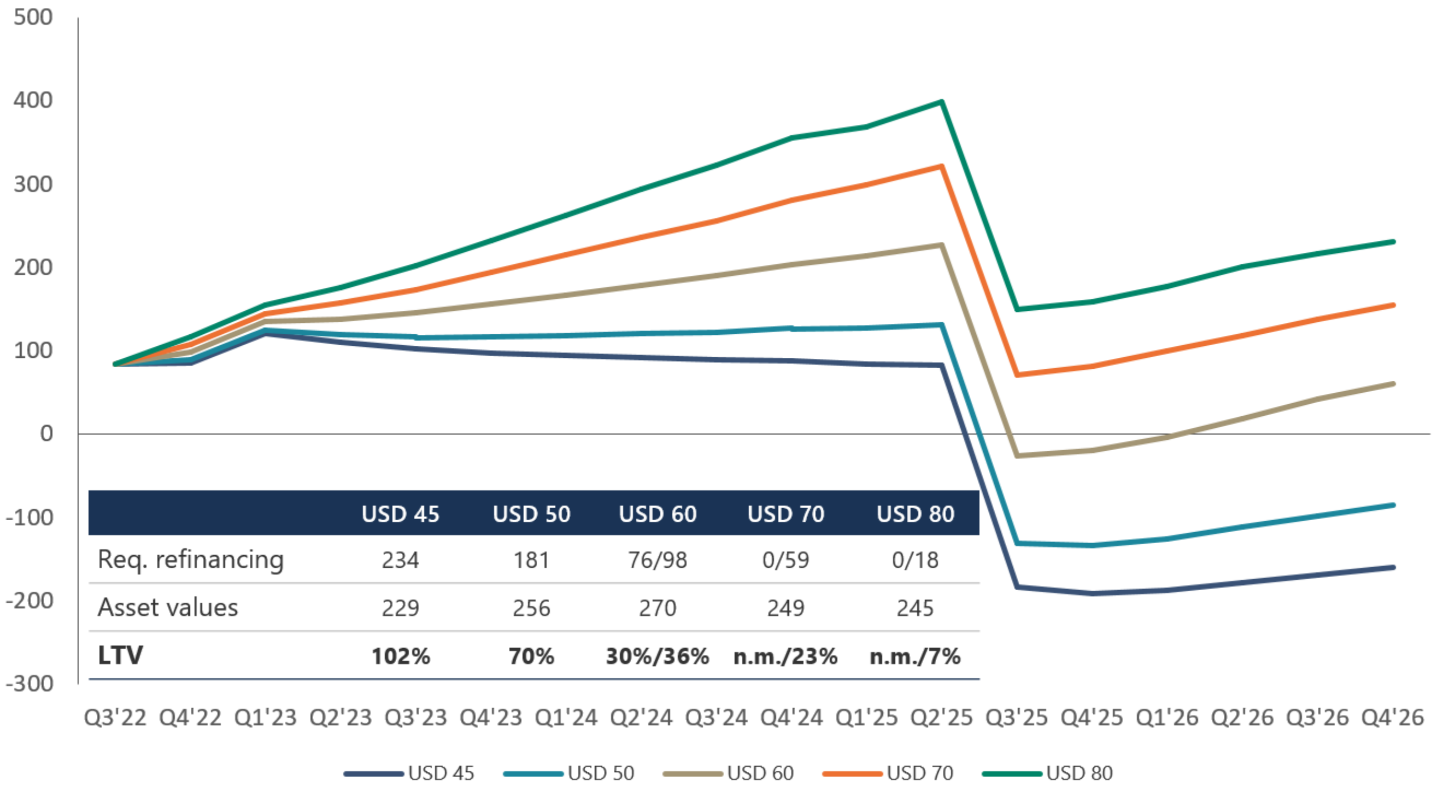
Source: Bloomberg, Arctic Securities Research

REFINANCING RISKS ARE SMALL FOR OIL PRICES ABOVE USD 50/BOE

LIQUIDITY TESTS

- **Cash profiles:** The charted cash flow profiles do not include any dividend payments. We estimate that oil prices above USD 55/boe will allow for dividend payments given the current limitations in the bond terms. In the table, the impact of no/maximum dividends on refinancing needs is illustrated.
- **Limited refinancing risk above USD 50/boe:** We model positive cash until bond maturity in Q3'25 on all our long-term oil price scenarios. At USD 45/boe long term, assuming a USD 50m liquidity buffer, we estimate a refinancing need of USD ~230m backed by USD ~230m in estimated asset values. At USD 50/boe, only USD ~180m needs to be refinanced with USD ~260m in asset backing. At higher oil prices refinancing LTV is low also when factoring in maximum dividends.
- **Capex flexibility:** We have not included any form of capex flexibility in these calculations. IOC's in the Kurdistan region have historically shown that they are quick to adapt capex programmes in times of reduced cash flow, thus reducing the refinancing need at low oil prices.

Cash development. Assuming no dividends and full repayment of bond in 2025, USDm



	USD 45	USD 50	USD 60	USD 70	USD 80
Req. refinancing	234	181	76/98	0/59	0/18
Asset values	229	256	270	249	245
LTV	**102%**	**70%**	**30%/36%**	**n.m./23%**	**n.m./7%**

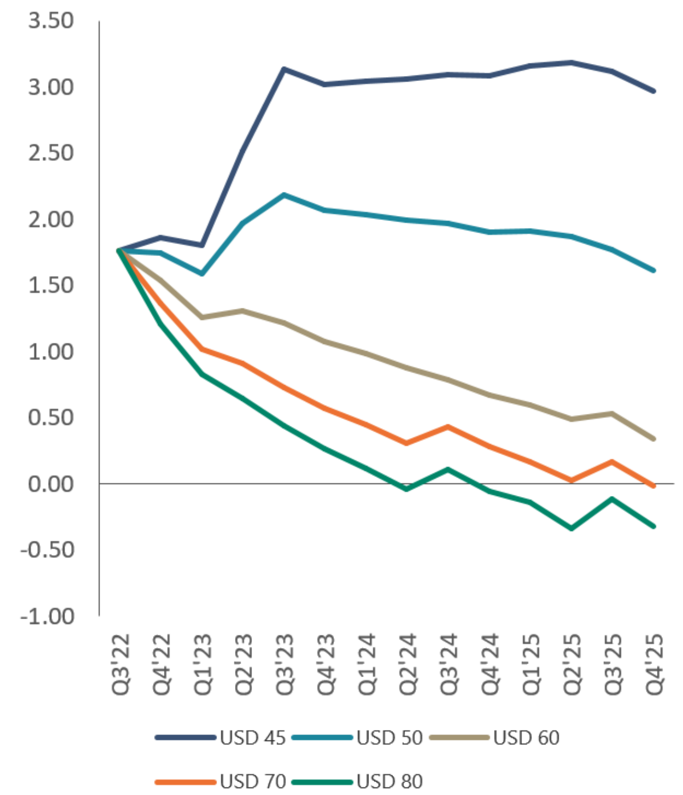
Source: Arctic Securities, Company information

LEVERAGE AND ICR SHOW RESILIENCE EVEN AT USD 45/BOE

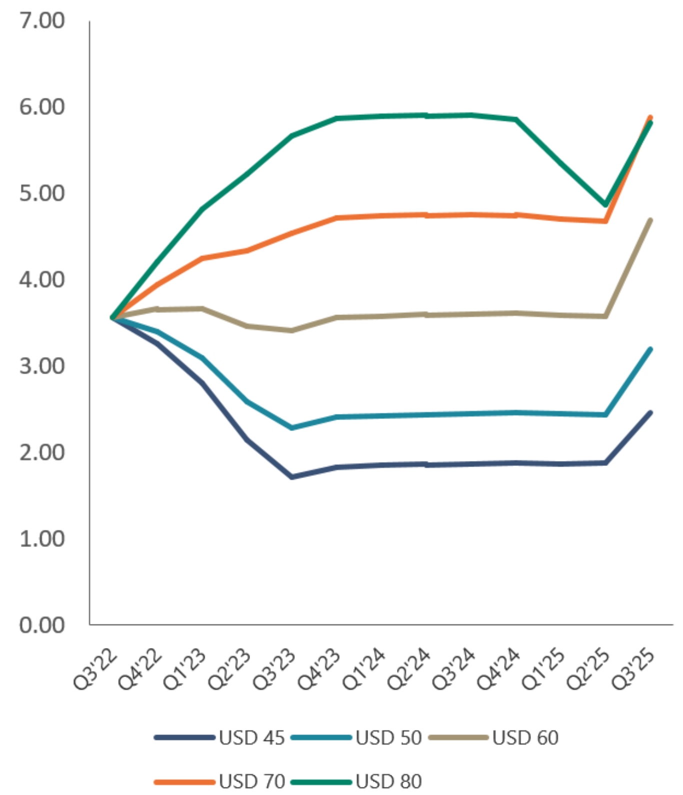
DEBT SERVICE ABILITY

- **Declining leverage:** Following the cash settlement of the Sarsang acquisition in Q3'22, ShaMaran will see an increase in its NIBD/EBITDA multiple to 1.76x on our forecast (EBITDA not pro forma adjusted). On the back of Sarsang EBITDA entering the 12m trailing figures and cash flow generation, we see the NIBD/EBITDA declining rapidly for all oil prices at USD 50/boe or above. At USD 45/boe long term, leverage is forecast to remain stable at around 3.1x.
- **Robustness in debt service:** In all oil price scenarios down to USD 45/boe, we model ICR well above 1.5x. The jump in ICR in Q3'25 stems from reduced interest payments due to the maturity of the 2025 bond.

NIBD/EBITDA, MAXIMUM DIVIDENDS (X)



EBITDA ICR (X)



Source: Arctic Securities, Company information

SECTION 2

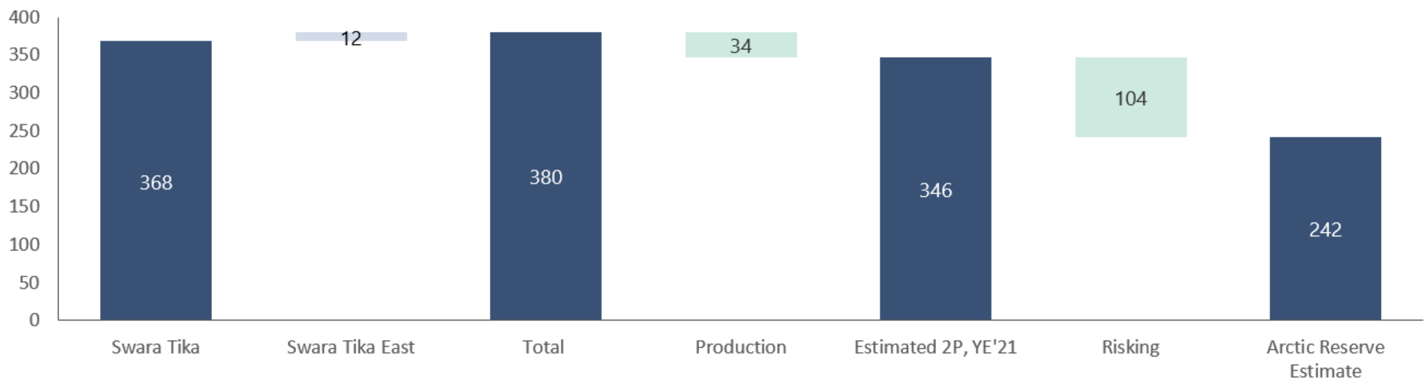
Sarsang Acquisition

SARSANG ACQUISITION IS A GAME CHANGER

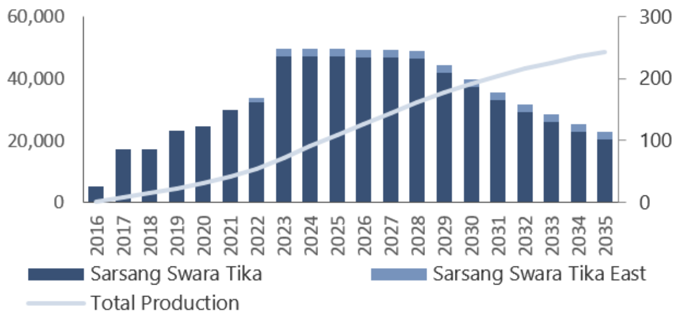
Comments

- The Sarsang licence is 62% owned and operated by HKN Energy. The KRG has a 20% carried stake, and ShaMaran now controls the remaining 18% post the acquisition from TotalEnergies
- The last external reserve estimates for the Sarsang licence are from YE'2017, where gross 2P reserves were estimated to 380 Mmboe. Between then and YE'21, the licence has produced 34 Mmboe, resulting in a 2P estimate of 346 Mmboe when assuming 0% RRR. For our modelling we risk this with 30%, resulting in a gross reserve estimate of 242 Mmboe as of YE'21. The oil quality is close to Brent, at 37-39 API in both the main Swara Tika and East Swara Tika reservoirs. In addition, there is considerable 2C potential with the 2018 estimate from HKN coming in at 427 Mmboe.
- Gross production was 29,700 boepd in Q2'22, constrained by production facilities. A new 25,000 boepd production facility came on stream in September 2022 and is confirmed to have added more than 20,000 boepd as of late October.

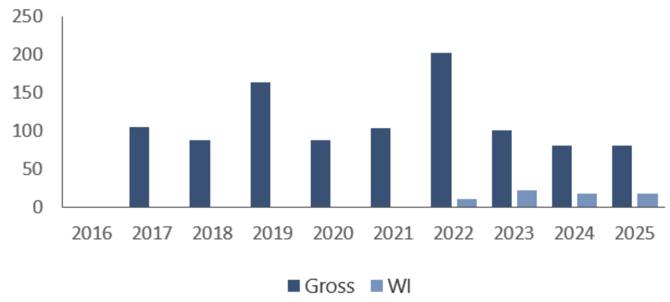
Estimated 2P reserve development (Mmboe)



Production outlook (boepd, gross)



Capex estimates (Gross and WI, USDm)



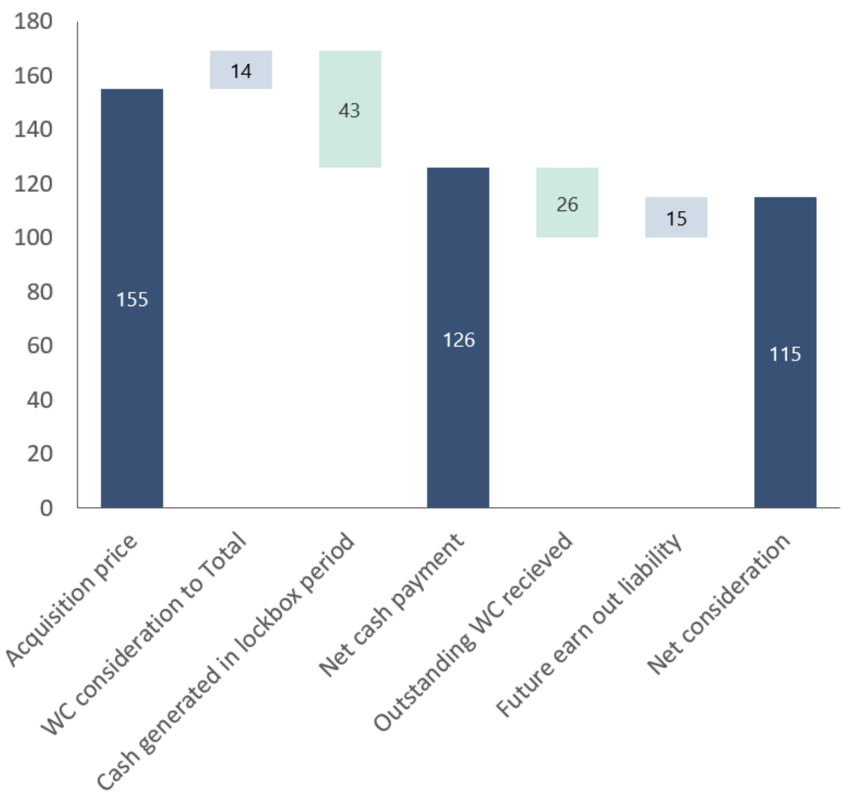
Source: Company Information, Arctic Securities Research

SARSANG ACQUISITION IS A GAME CHANGER

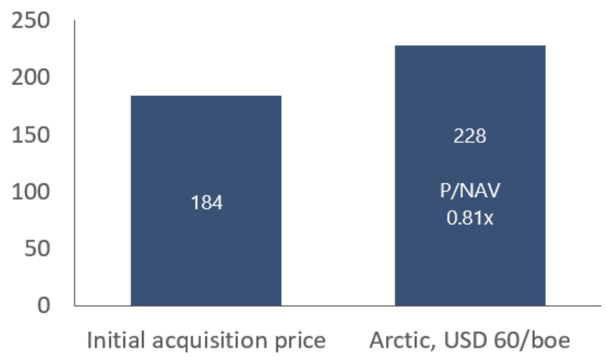
Comments

- ShaMaran announced the acquisition of an affiliate of TotalEnergies that holds an 18% Working Interest stake in the Sarsang PSC on 12 July 2021. The transaction had an effective date as of 01.01.2021. The total consideration was USD 155m, USD 15m earn out and USD 14.2m for NWC.
- In connection with the transaction, ShaMaran issued a USD 300m 2025 bond, of which USD 111.5m was raised in 2021, with the remainder structured as a conditional exchange of the pre-existing 2023 bonds upon transaction close. In addition, the company raised USD 30.15m in a fully underwritten and ultimately oversubscribed equity issue.
- Transaction close was achieved on 14 September 2022, following KRG approval.
- As a consequence of the long closing period and net positive cash flow from 01.01.2021 up to September 2022, we estimate that ShaMaran will end up reducing the total consideration to Total from USD 184m to USD ~115m. We model the production- and oil price based earn out payment in 2027E.

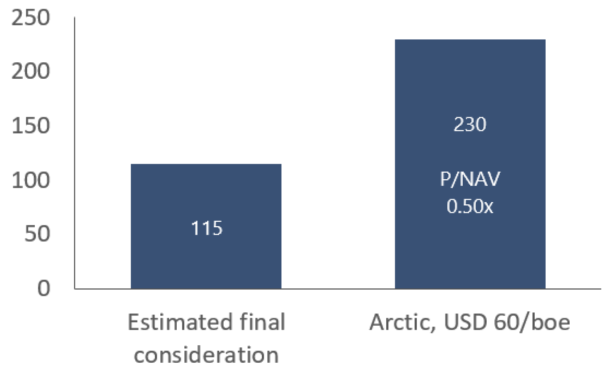
Valuation bridge, USDm



Sarsang valuation 01.01.21



Sarsang valuation 30.09.22



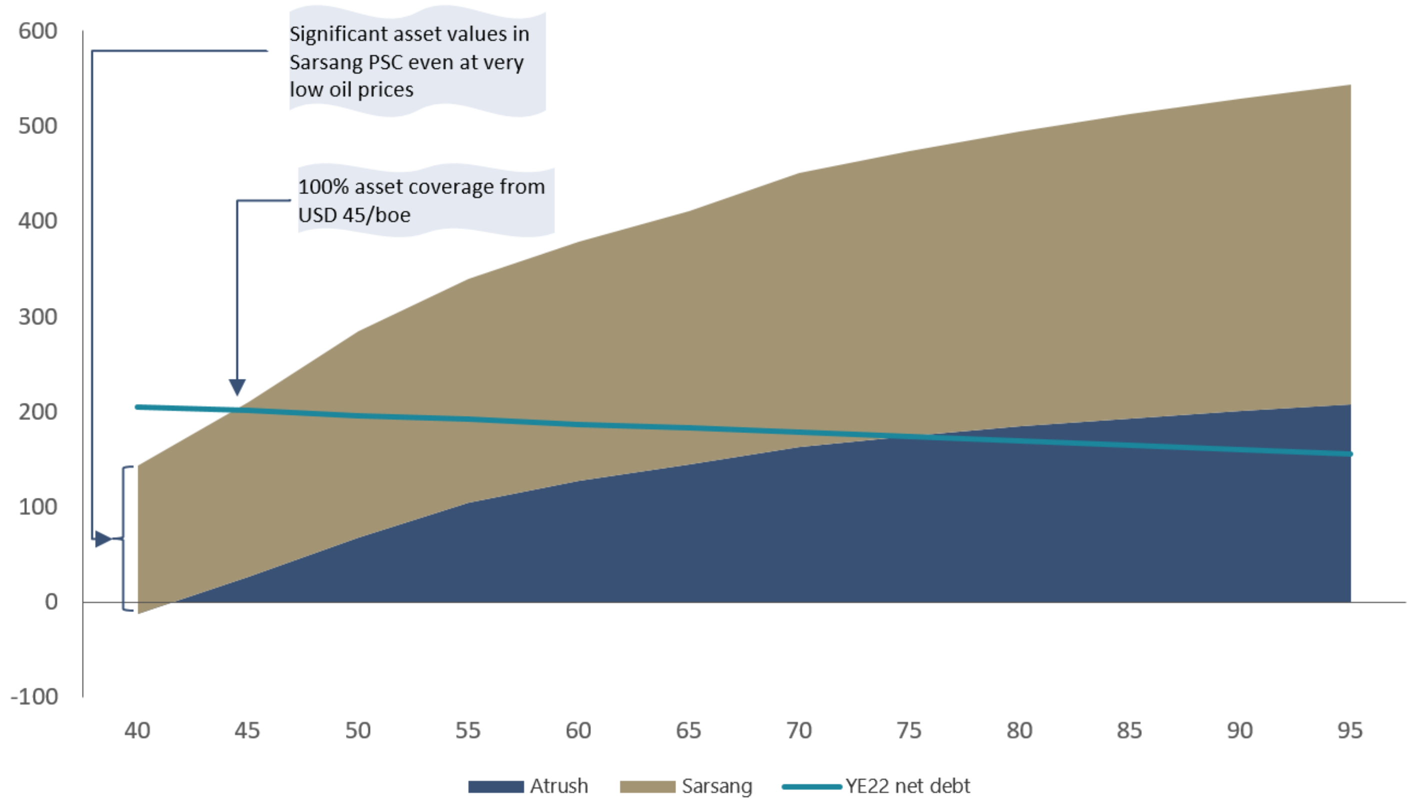
Source: Company Information, Arctic Securities Research

SARSANG ACQUISITION IS A GAME CHANGER

Comments

- The value of the Sarsang stake is significantly more robust vs. lower oil prices than Atrush. This is due to:
  - 1) **Higher API oil, resulting in a lower discount to Brent.** We estimate realised discounts post the revision to KBT linked pricing of USD 23/boe on Atrush and USD 15/boe on Sarsang
  - 2) **Higher expected production, enabling more rapid recovery of cost oil even at low oil prices.** We estimate gross production of ~50,000 boepd on Sarsang vs. ~38,000 boepd on Atrush.
  - 3) **Higher outstanding cost oil balance and better overall PSC terms.** Maximum cost oil on Sarsang is 43% vs. 40% on Atrush. Capacity building payments are 20% vs. 30%. Maximum profit oil is 35% vs 32%. One negative aspect is that the KRG is carried on Sarsang, but this has less of an impact going forward, as ramp up capex has already been incurred

Asset values, sensitivities to oil price (USDm)



Source: Company Information, Arctic Securities Research

SECTION 3

PSC details

PSC DETAILS

Comments

- Both the Atrush and Sarsang PSC's offer comparable terms compared to most other PSC arrangements in Kurdistan. Overall, the Sarsang PSC offers slightly better terms, resulting in a higher maximum net entitlement (ShaMaran's stake of gross oil production) despite the lower working interest. This is mainly due to lower capacity building charges (government take of contractor profit oil), but also higher cost and profit oil allowances. The Sarsang licence is also forecast to have a higher cost oil reserve and a lower R factor, resulting in a more gradual decline in net entitlement barrels. However, once cost oil balances are depleted and R factors increase towards maximum levels, the Atrush licence will deliver a higher minimum net entitlement share to ShaMaran.
- ShaMaran has significant cost oil balances left on both the Atrush and Sarsang PSC's, effectively ensuring that the maximum permittable amount of gross oil production is allocated to cost oil. In addition, the R-factor is still below 1x, ensuring maximum profit oil. Both fields are also expected to produce at around maximum capacity levels for the coming years. These factors, along with high oil prices, has created a perfect storm in terms of FCF generation capacity over the coming years.
- At lower oil prices, it will take longer to deplete the cost oil balances. At the same time, it will take longer time to reach higher R-factors. This will result in ShaMaran maintaining a high net entitlement for longer in low oil price scenarios.
- An effectively lower government take in low oil price scenarios acts as a cushion for the credit risk exposure.

Detailed PSC overview from a ShaMaran perspective

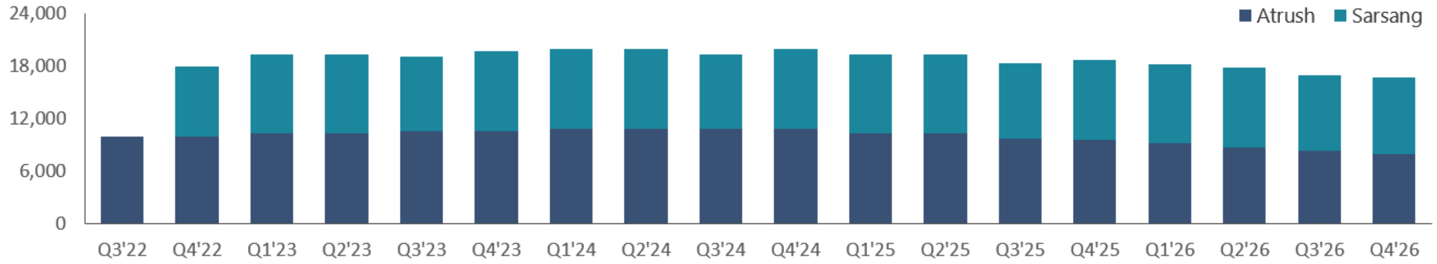
PSC details		Atrush	Sarsang
Working interest		28%	18%
Paying interest		28%	23%
Royalty		10%	10%
Estimated cost oil reserve, YE'22		105	125
Maximum cost oil		40%	43%
Capacity building charges		30%	20%
Estimated R factor		0.93	0.86
Maximum profit oil	R<1	32%	35%
Minimum profit oil	R>2.25 / 2	16%	15%
Maximum net entitlement		11.3%	13.3%
Minimum net entitlement		2.8%	1.9%

NET ENTITLEMENT EXPLAINED

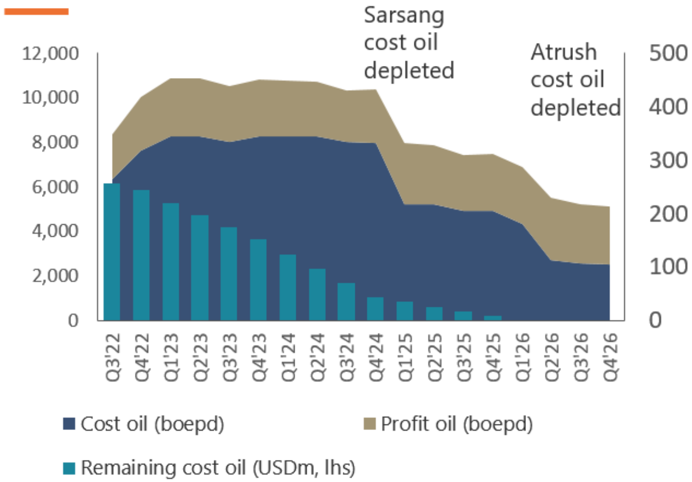
Comments

- We base all our scenarios on the same overall gross production profile. PSC specifics are assumed to remain constant as per the existing contract, and the same for the working interest from Q4'22 and onwards.
- Overall, this results in ShaMaran having an estimated working interest production in the 18-20,000 boepd range going forward. Significant asset reserves help stem decline in our forecast period.
- Dependent mainly on realized oil prices, but also capex and opex assumptions, the net entitlement, which form the basis for revenue generation, can still differ materially.
- In high oil price scenarios, R factors will increase and cost oil balances will decline more rapidly, as illustrated in the USD 80/boe scenario. At oil prices of USD 50/boe, we forecast cost oil balances to remain positive throughout our forecast period and R factors to be lower, ensuring a "higher for longer" net entitlement to ShaMaran.

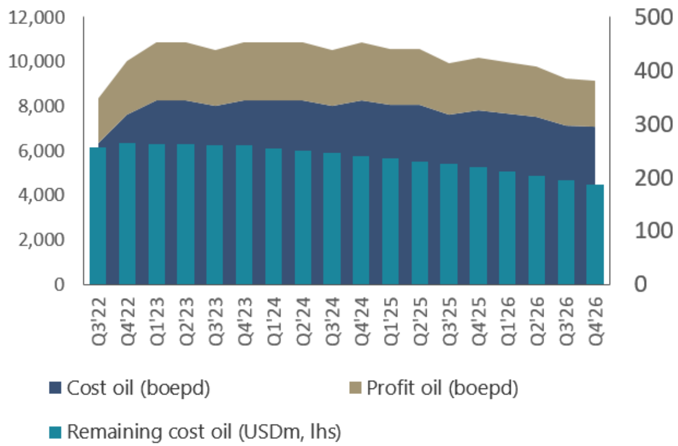
Gross production – all scenarios



Net entitlement development, USD 80/boe



Net entitlement development, USD 50/boe



Source: Arctic Securities, Company information

SECTION 4

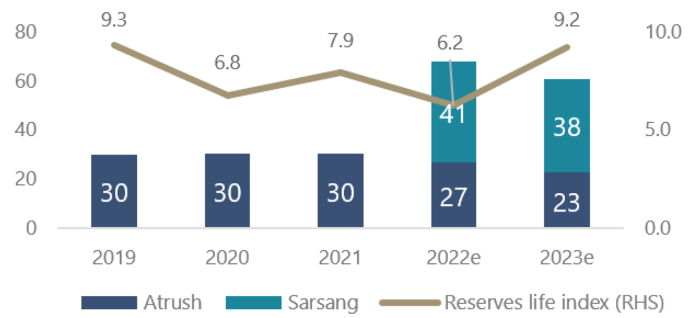
Asset overview

HIGH LEVEL ASSET OVERVIEW

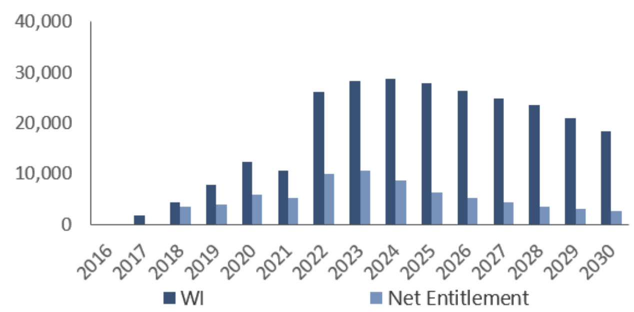
Comments

- **68 mmboe of 2P, additional 36 mmboe in 2C:** We estimate working interest 2P reserves to ShaMaran of 68 Mmboe as of YE'22. This is based on estimated production, the 2021 reserve report on Atrush and a 30% risking of 2P estimates from 2018 (most recent datapoint) on Sarsang. In addition we estimate 2C upside of 36 Mmboe, when including light/medium viable oil resources only. Including heavy oil would add at least 48 Mmboe to the 2C resource potential.
- **Entering peak production:** The Atrush field has been producing close to maximum capacity for close to three years. The Sarsang field recently saw the installation of a new 25,000 boepd production facility, effectively lifting nameplate capacity to ~55,000 boepd. Peak production is forecast on both fields until YE'2024, when we forecast depletion to set in on Atrush.
- **OPEX averaging USD 5-6/boe:** Lifting costs on both fields are low, and we model around USD 5-6/boe.

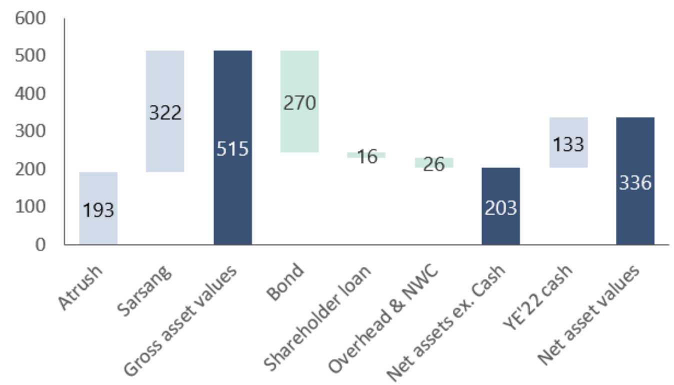
Reserve overview (2P mmboe)



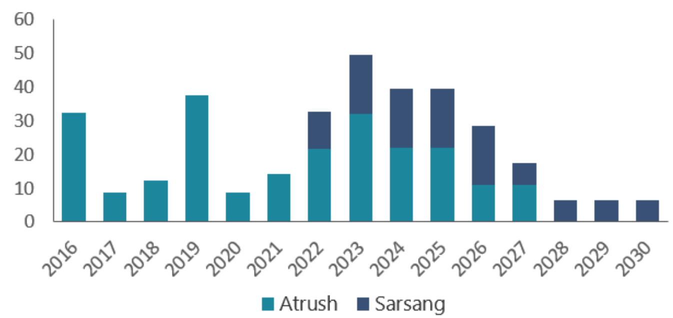
Production and NE profile, boepd



Valuation waterfall



Capex profile, paying interest, USDm



Source: Company information, Arctic Securities Research

ATRUSH – 27.6% WI

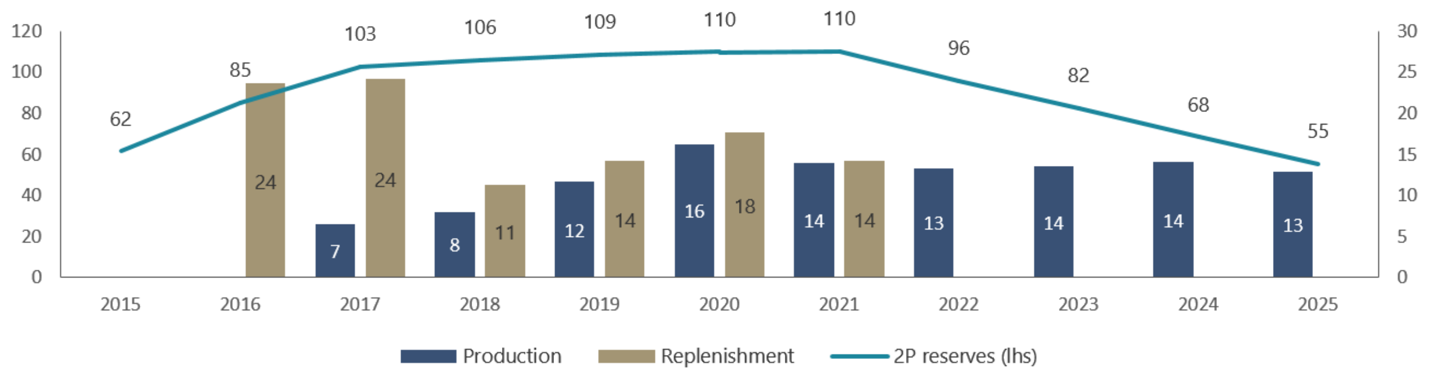
Comments

- **Overview:**

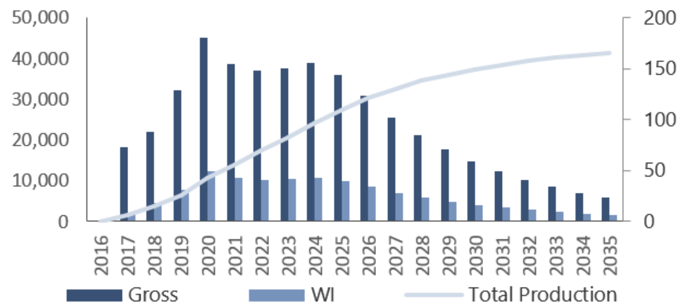
  -Gross 2P reserves: 110 mmboe

  -Gross production: 36-38,000 boe/d
- **History:** ShaMaran acquired an interest in the Atrush PSC in 2010. The first discovery was made in 2011 and commercial production commenced in 2017. Since production start up, ShaMaran has been able to replace all barrels produced with new reserves. We factor in zero RRR going forward. Given the track record, we are likely to err on the cautious side.
- **Oil type and recovery:** Medium oil, API 20-27. Historically sold at a USD ~16/boe discount to Brent.
- **Capex and Opex:** Investments on Atrush were suspended during Covid, but have recommenced in '22 and '23. From '24 and onwards, we model maintenance capex, declining with depleting 2P reserves. Opex is forecast at USD 5/boe at plateau.

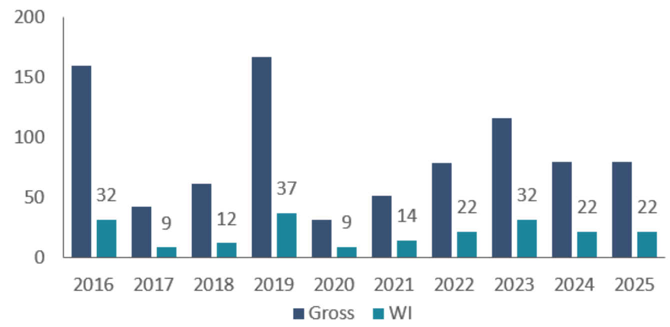
Reserve development (Mmboe)



Production profile (Gross and WI, boepd)



Capex (Gross and WI, USDm)



Source: Company information, Arctic Securities Research

SARSANG – 18.0% WI

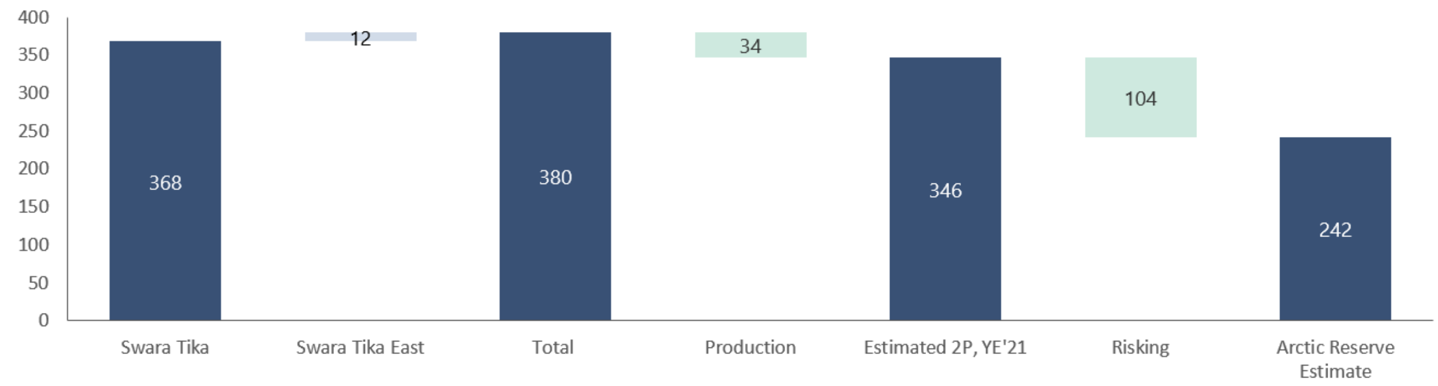
Comments

- **Overview:**

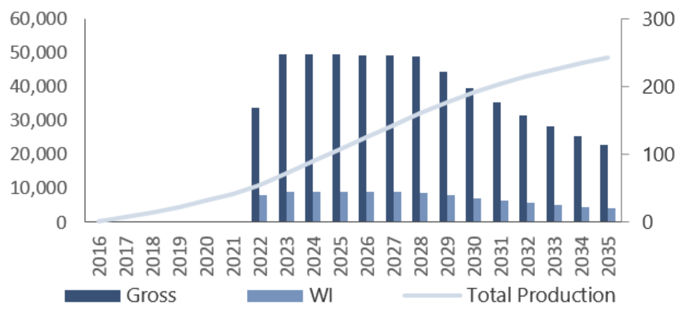
  -Gross 2P reserves: 242 mmboe*

  -Gross production: 29,700 boe/d
- **History:** ShaMaran acquired a 18% working interest in the Sarsang PSC in 2022. The licence has been producing from the Swara Tika reservoir since 2016, and has recently seen the installation of an additional 25,000 boepd production facility, lifting nameplate capacity to ~55,000 boepd.
- **Oil type and recovery:** Light oil, API 37-39. Historically sold at a USD ~7-10/boe discount to Brent including transportation cost. A new pipeline which became operational in October, eliminates the need for trucking to Fishkhabur for 90% of Sarsang volumes.
- **Capex and opex:** Capex is expected to come down following the completion of the production capacity upgrade. Opex is forecast at USD 4-5/boe

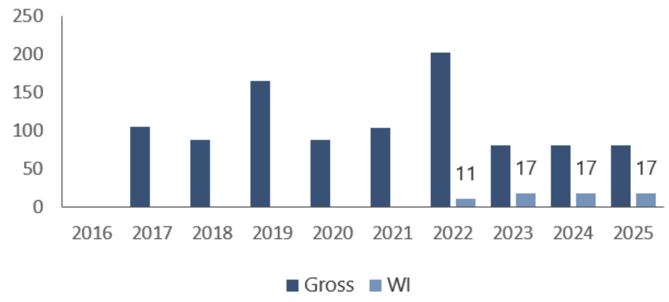
Reserve assessment, bridge from 2018 reserve report (Mmboe)



Production profile (Gross and WI, boepd)



Capex (Gross and WI, USDm)



* The most recent reserve report on Sarsang is from 2018. We have based our 2P estimate on reported production since the last reserve report, assumed zero replenishment and applied a 30% risking.

Source: Company information, Arctic Securities Research

SECTION 5

Financials

ARCTIC SECURITIES

FINANCIAL ESTIMATES

ASSUMPTIONS

- **USD 80-100/boe oil price deck:** We forecast Brent at USD 100/100/90/80 for Q4'2022/2023/2024/2025+ respectively.
- **Production profile:** We model production close to nameplate capacity both at Atrush and Sarsang until 2024E, after which depletion is forecast to set in on Atrush. Depletion for Sarsang is modelled from 2028E based on current 2P estimates. Combined with our oil price and opex assumptions, this will result in net entitlement volumes dropping from Q4'24, when cost oil on Atrush is estimated to be depleted.
- **Realized prices and OPEX:** We model a realized discount vs Brent of USD 15.7-19.2/boe. The level depends on KBT prices, transportation and direct lifting costs. Including SG&A, we model an OPEX of USD 6.9-7.4/boe in our forecast period.
- **Capex:** We model capex of USD 159m in 2022, including the net consideration paid for the Sarsang licence. In '23 we forecast this to drop to USD 49m, before levelling off at USD 30-40m per annum. Given the reserve base, we would not rule out additional developments and capex beyond these assumptions going forward.
- **Dividends:** We model maximum dividend payments, subject to restrictions on net profit (50% of last year) and NIBD (<USD 100m).

USDm	2019	2020	2021	2022e	2023e	2024e	2025e	2026e
Revenues	70	57	102	187	318	231	147	131
Production costs	-22	-23	-20	-24	-40	-40	-39	-36
Other expenses	-11	-12	-14	-8	-9	-9	-9	-9
EBITDA	**37**	**22**	**68**	**155**	**270**	**182**	**99**	**86**
EBITDA-margin	*53%*	*38%*	*66%*	*83%*	*85%*	*79%*	*68%*	*66%*
EBIT	**11**	**-6**	**42**	**124**	**225**	**136**	**56**	**45**
EBIT-margin	*15%*	*-11%*	*41%*	*66%*	*71%*	*59%*	*38%*	*35%*
Financial Cost (net)	-24	-22	-29	-33	-34	-33	-17	0
Cash flow from operations	10	-1	65	111	222	175	98	83
Free cash flow	-27	-10	51	-47	172	136	58	55
Change in debt	-50	18	96	9	0	0	-286	0
Change in equity	0	5	-3	1	0	0	0	0
Dividends	0	0	0	0	-47	-95	-51	-19
Net cash flow	-77	13	144	-38	126	40	-279	35
Interest bearing Debt	190	188	281	286	286	286	0	0
Net interest bearing debt	174	160	109	153	27	-14	-20	-56
NIBD/EBITDA	4.7x	7.4x	1.6x	1.0x	0.1x	-0.1x	-0.2x	-0.7x
IBD/EBITDA	5.1x	8.7x	4.1x	1.8x	1.1x	1.6x	0.0x	0.0x
CFO/IBD	5%	0%	23%	39%	78%	61%	0%	0%
FCF/IBD	-14%	-5%	18%	-17%	60%	48%	0%	0%
EBITDA ICR	1.6x	1.0x	2.4x	4.7x	8.0x	5.5x	6.0x	715.1x
Equity Ratio	39%	2%	5%	29%	45%	46%	84%	86%
Gross ('000 boepd)	32,348	45,114	38,577	48,059	87,250	88,750	85,625	80,040
Working interest (boepd)	7,905	12,451	10,678	12,229	19,305	19,719	18,857	17,363
Net entitlement (boepd)	4,028	5,994	5,192	6,173	10,557	8,758	6,302	5,272
Brent price per barrel	64	42	71	103	100	90	81	85
Realized revenue per barrel	48	26	55	84	84	73	65	69
Opex per barrel	12	8	9	7	7	7	7	7

Source: Company information, Arctic Securities Research

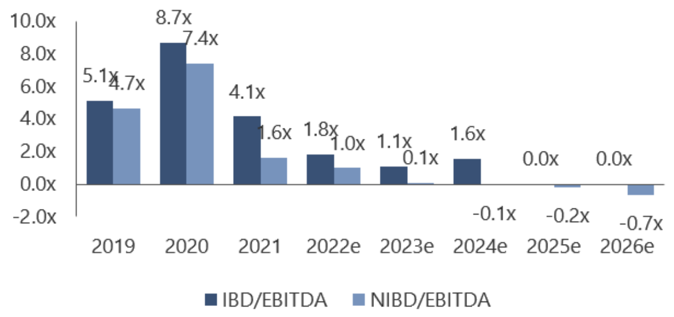
ARCTIC SECURITIES

CREDIT METRIC DETAILS

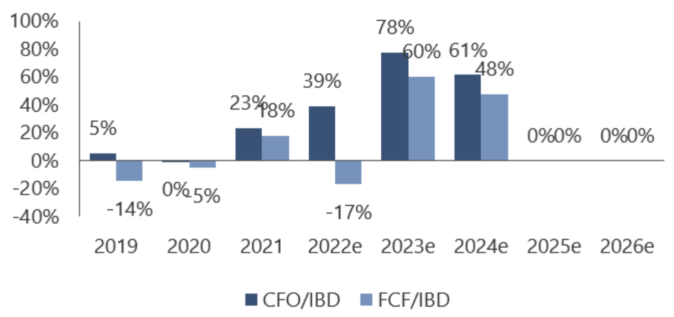
Comments

- **Basecase assumptions:** USD 100/100/90/80 for Q4’22/23/24/25+
- **Leverage:** ShaMaran is net cash in 2024 with dividends, and already in 2023 ex. dividend payments.
- **Cash flow to debt:** We estimate that operational cash flow will be in the range of 61-78% of interest-bearing debt until bond maturity and the company going debt free in 2025. 48%-60% after accounting for Capex.
- **Loan to value:** We estimate a net LTV of 0-29% through our forecast period, again after factoring in maximum dividend payments. Gross LTV is hence less relevant, as ShaMaran is forecast to be in a position to refinance all debt with cash at hand in 2025E.
- **Equity ratio:** ShaMaran will be in a position to add significantly to its equity ratio going forward, and we expect this to improve to 46% already in 2023. Following debt repayment and balance sheet reduction in 2025E we forecast ~85% equity ratio.

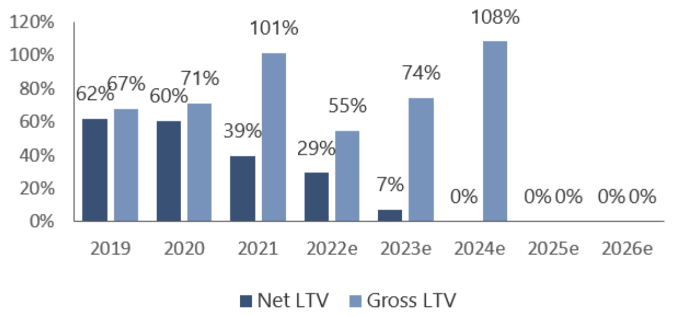
Leverage ratios



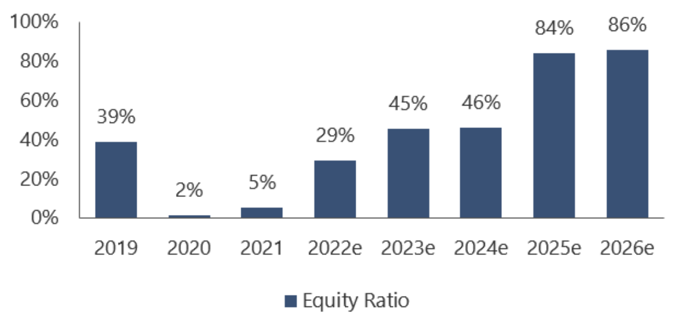
Cash flow to debt



Loan to value



Equity ratio



Source: Company information, Arctic Securities Research

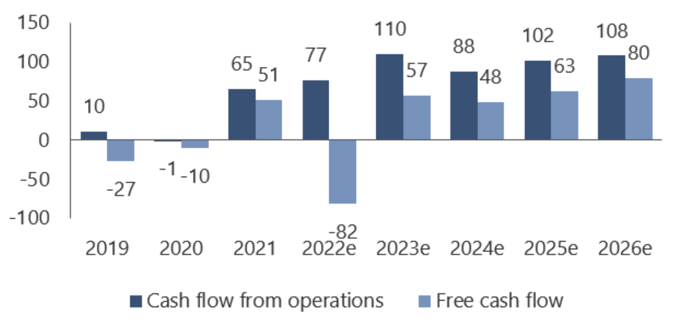
SENSITIVITY ANALYSIS - USD 60/BOE

Comments

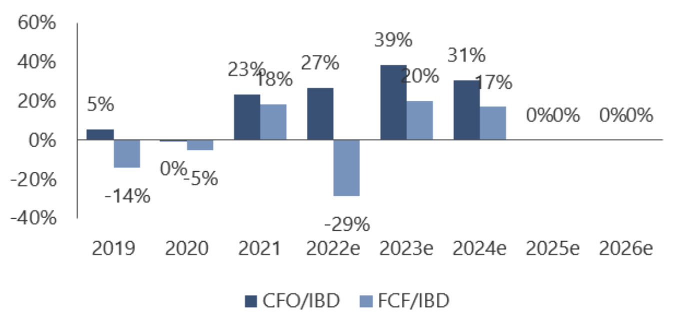
- **Significant headroom:** Due to its low cash break-even, opex and the PSC structures, ShaMaran is very robust to falling commodity prices. We estimate a FCF cash break-even with commodity prices in the range of USD ~35-40/boe at our current forecast. At our USD 60/boe low case, FCF is forecast at USD 48-80m from 2023 and onwards.
- **Cash flow to debt:** Even when assuming Brent pricing at USD 60/boe flat, ShaMaran will maintain strong cash flow vs. debt. CFO/IBD will remain at 31-39%, whereas FCF after capex will remain in the 17-20% range.
- **Loan to value:** Gross LTV, excluding cash, in 2025 is forecast at 90% at long-term Brent assumptions of USD 60/boe, which is lower than in higher oil price scenarios. This is due to PSC technicalities, where less of the asset values are converted to FCF and more is retained in the form of higher cost oil balances and lower R ratios in low oil price scenarios. Net LTV is ~15% post bond maturity, indicating a refinancing need of USD 80m
- **Equity ratio:** Approximately 10 ppt lower than in the base case scenario up until bond maturity in 2025.

Source: Company information, Arctic Securities Research

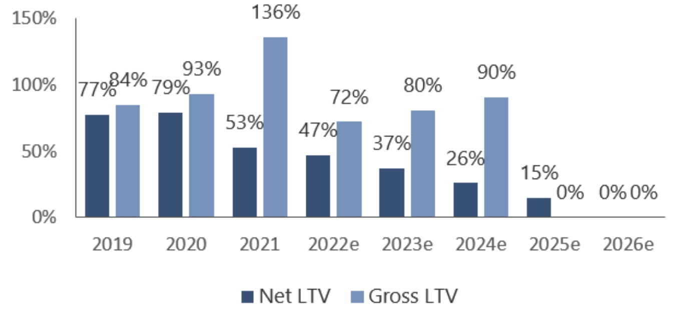
FCF (USDm)



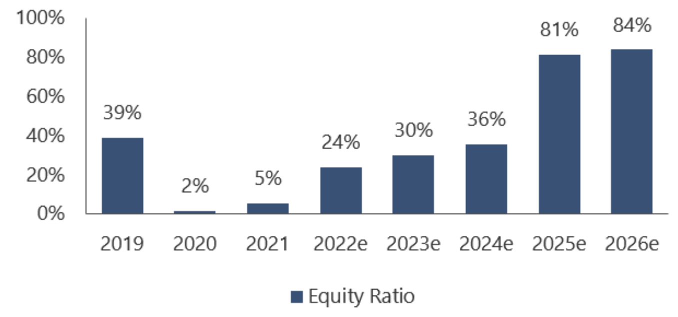
Cash flow to debt



LTV development



Equity ratio development – (30% covenant)



DETAILED SOTP

COMMENTS

- **Gross asset values of USD 489m:** We base our SOTP assessment on 12.5% WACC. The valuation point has been set to YE'22, ensuring that we correctly account for 1H'22 developments, and the Sarsang transaction that closed in Q3'22. Atrush is assessed using YE'21 2P reserves of 110 Mmboe and assuming zero reserve replenishment going forward. The Sarsang asset values are assessed on a PSC basis but are split into the two different reservoirs to illustrate the relative importance of Swara Tika vs. Swara Tika East on current production forecast. As no updated 2P reserve estimate is available for Sarsang, we have taken the 2018 datapoint, deducted production and risked the result with 30% to account for potential changes in the reserve base. That yields a gross reserve base of 242 Mmboe as of YE'21.
- **Upside:** Atrush 2C resources are split into viable/non-viable barrels. We include viable barrels only. For Sarsang, we only include barrels in the Triassic reservoir on Swara Tika East and exclude 2C related to heavy oil in the Jurassic. We set a 25% probability of commercialization.
- **Sensitivity analysis:** In addition to our base case oil price curve, we also carry out sensitivity analysis for oil prices of USD 50-70/boe from Q4'22 and onwards. This results in gross asset values of USD 240-392m, and roughly USD 25-45m in estimated reduced net cash build during 2H'22.

Asset	Gross mmboe	WI	Net mmboe	USD/ boe	Unrisked, USDm	Prob.	Risked, USDm	USD 50/boe	USD 60/boe	USD 70/boe
Atrush	109	27.6%	30.14	6.16	186	100%	186	64	119	151
Sarsang Swara Tika	230	18.0%	41.44	6.82	283	100%	283	188	224	252
Sarsang Swara Tika East	12	18.0%	2.15	6.82	15	100%	15	15	15	15
Sum production	**351**	**21%**	**74**	**6.6**	**483**	**100%**	**483**	**267**	**358**	**418**
Atrush upside	29	27.6%	8	3.5	28	25%	7	3	7	7
Sarsang upside	156	18.0%	28	3.5	99	25%	25	12	25	25
Sum development potential	**185**	**19%**	**36**	**3.5**	**126**	**25%**	**32**	**16**	**32**	**32**
Total					**610**	**84%**	**515**	**282**	**389**	**450**
Overhead							-66	-66	-66	-66
Working capital and financial assets							39	39	39	39
Overhead & working capital							**-26**	**-26**	**-26**	**-26**
Core Gross Asset Value							**457**	**240**	**332**	**392**
Gross Asset Value							**489**	**256**	**363**	**424**
Net cash (debt),end-22							-153	-197	-188	-179
Core Net Asset Value							**304**	**44**	**144**	**213**
Net Asset Value							**336**	**59**	**175**	**244**

Source: Company information, Arctic Securities Research

KEY RISK FACTORS

COMMENTS

- **Geopolitical risk:** ShaMaran's assets are located in the Kurdistan region of Iraq, an area subject to high geopolitical risk. There is an ongoing dispute between the Iraqi Federal Government and the Kurdistan Regional Government regarding the Kurdistan Oil & Gas law from 2007. In a ruling from February 2022, the Iraqi supreme court declared this law unconstitutional. In the aftermath, several PSC contracts in Kurdistan, including PSCs held by ShaMaran, has been declared void by the Karkh Commercial Court in Baghdad. Several oil services companies have also pulled out of the Kurdistan region, at the threat of being blacklisted from operating in non-Kurdistan Iraq. According to media reports, Baghdad has also terminated the monthly budget transfers to the Kurdistan Regional Government. The KRG is fiercely defending what it sees as its right to govern oil resources located in the Kurdistan region, and has also filed appeals on behalf of IOC's in Baghdad courts. An ongoing arbitration related to the Iraq Turkey Pipeline, which currently is main export route for Kurdish crude, is also expected to reach a ruling before YE'22. Despite these challenges, there has been no meaningful impact on oil field operations in Kurdistan to date, and all payments to oil companies have been carried out according to the normal 90-day payment schedule. After more than a year in deadlock, a new prime minister and government was approved by the Iraqi parliament on October 27th. According to local media sources the formation of a Iraqi government is expected to potentially result in a more constructive dialogue between Baghdad and Kurdistan officials regarding the management of natural resources.
- **Operational risk:** As with all oil field developments, there is significant uncertainty related to future production profiles, reserve estimates and in extension, asset value backing. These risks are addressed by requirements of annual reserve reports carried out by independent third parties. For ShaMaran in particular, the relatively low production compared to reserve estimates also act as a buffer vs. downside scenarios in terms of reserve estimates. Capex and Opex risks are also present but mitigated by relatively uncomplicated onshore developments, and the full passthrough over cost oil over time.
- **Commodity price risk:** Cash flow generation and asset values are sensitive to commodity prices, and in particular the Kurdistan Blend (KBT), which the revised oil sales agreements are linked to. The KBT is closely related to the Kirkuk blend, which historically has traded in a range of USD -6.85/boe to +2.65/boe vs Brent. The KBT is sold out of the Turkish port of Ceyhan in the Mediterranean and is of similar grade as Russian Ural crude grades. Given the current market situation regarding Russian crude, these grades are marketed at significant discounts vs. historical levels, resulting in negative pricing pressure also on KBT. As an example, HKN currently estimates that Sarsang crude will be subject to an additional USD 9/boe discount vs. the previous oil sales agreement. Russian crude is likely to become less available for European buyers going forward, potentially alleviating this negative pricing pressure. As long budget transfers from Baghdad are withheld, the KRG is also highly dependent on revenues from oil exports, and thereby oil prices, in order to be able to honor its commitments vs. its counterparts including the IOC's. In addition to these Kurdistan specific risks, oil prices are volatile, and dependent on the overall demand/supply balance.

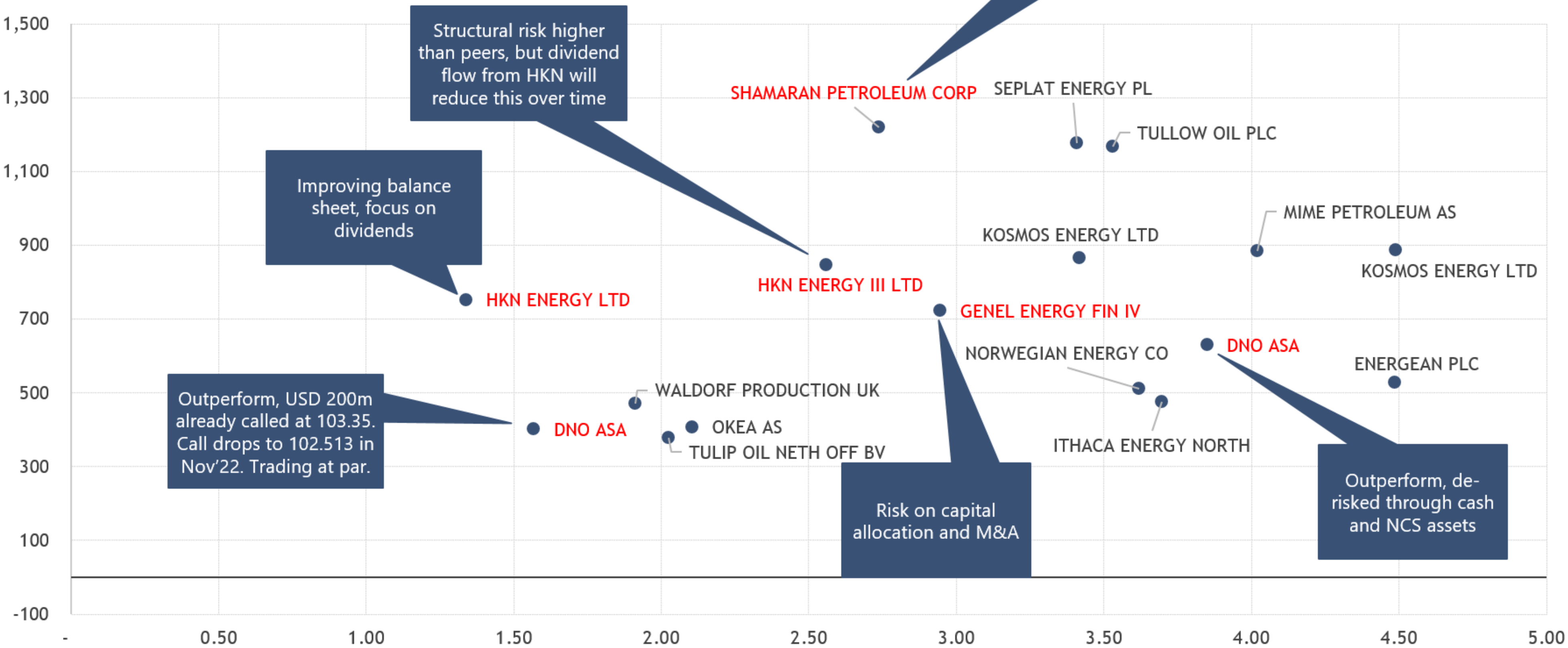
Source: Media reports, Arctic Securities Research

SECTION 6

Bond peers

PEER PRICING AND RECOMMENDATIONS

Scatter plot, spread



Source: Bloomberg, Arctic Securities Research

CREDIT AND OPERATIONAL METRICS

	ShaMaran petroleum corp	VS	DNO	GKP Gulf Keystone Petroleum	Genel Energy	HKN Energy Ltd.
Market cap	USD 224m		USD 1375m	USD 525m	USD 413m	Private
Net debt	USD 54m		USD -129m	USD -132m	USD -141m	USD -143m
LTM EBITDA	USD 104m		USD 1110m	USD 399m	USD 425m	USD 308m
NIBD/EBITDA	0.5x		n.m.	n.m.	n.m.	n.m.
Equity ratio	19%		42%	60%	61%	75%

2P Reserves	74 Mmboe		321 Mmboe (267 Mmboe in Kurdistan)	489 Mmboe	104 Mmboe	150 Mmboe
Production (WI)	~10,500 boepd		~94,500 boepd (~81,500 boepd in Kurdistan)	~35,900 boepd	~30,400 boepd	~18,500 boepd
Reserve life	8.3 years		9.4 years (9.1 years in Kurdistan)	37.9 years	9.5 years	22.4 years

Source: Company information, Stamdata, Arctic Securities Research. As per last reported datapoint for finacials and production, YE'21 for reserve numbers. Sarsang not included in Shamaran operational figures

TERM SHEET COMPARISON KURDISTAN E&P COMPANIES

	ShaMaran petroleum corp	VS	DNO	GKP Gulf Keystone Petroleum	Genel Energy	HKN Energy Ltd.
Initial amount	USD 111m/USD 300m		USD 400m	USD 100m	USD 300m	USD 100m
Borrowing limit	USD 300m		USD 400m	USD 300m	USD 300m	USD 200m
Coupon	12%		7.875%	10%	9.25%	11%
Issue date	Jul-21		Jun-21	Jun-18	Oct-20	Mar-19
Tenor	4 years		5 years	5 years	5 years	5 years
Maturity	Jul-25		Jun-26	Called	Oct-25	Mar-24
Rank	Senior unsecured	In line	Senior unsecured	Senior unsecured	Senior unsecured	Senior unsecured
Maintenance covenants	Asset coverage >1.25x	Weaker	Liquidity > USD 40m Min. Equity ratio i) 30% or ii) USD 600m	Liquidity > 1.5x 12 months interest costs; Equity ratio >40%	Liquidity > i) USD 30m or ii) 12 months interest cost; Equity ratio > 40%	Liquidity > 1.5x 12 months interest costs; Equity ration > 40%
Incurrence test	Leverage ratio <1.75x,	In line	-	Leverage ratio <1.75x	-	Leverage ratio <1.5x for taps,
Permitted distributions	NIBD <USD 100m 50% of net profit	In line	Subject to Liquidity > USD 80m	50% of net profit subject to negative Net Interest Bearing Debt and Leverage ratio <0.5X and Liquidity >USD 80m	Subject to Liquidity > USD 150m	After 2021: If net debt after distribution, 50% of net profit Liquidity >1.75x 12 months interest cost Leverage ratio <1.0x
Call options	MW 2.0 50/37.5/25/12.5%	In line	NC3.0 40/20/20%	MW 2.0 60/40/20/10%	MW 3.0 40/30/20%	MW 2.0 60/50/40/30/20%
Default provisions related to PSC contracts	Loss of PSC trigger Total Loss and mandatory prepayment event	In line	PSC Cancellation event must in addition trigger Material Adverse Effect	A PSC Cancellation event will trigger a default if not remedied after 60 days. Also, protection through disposal restrictions and total loss event	PSC Cancellation event must in addition trigger Material Adverse Effect	PSC Cancellation and Significant Disposal both trigger mandatory prepayment event

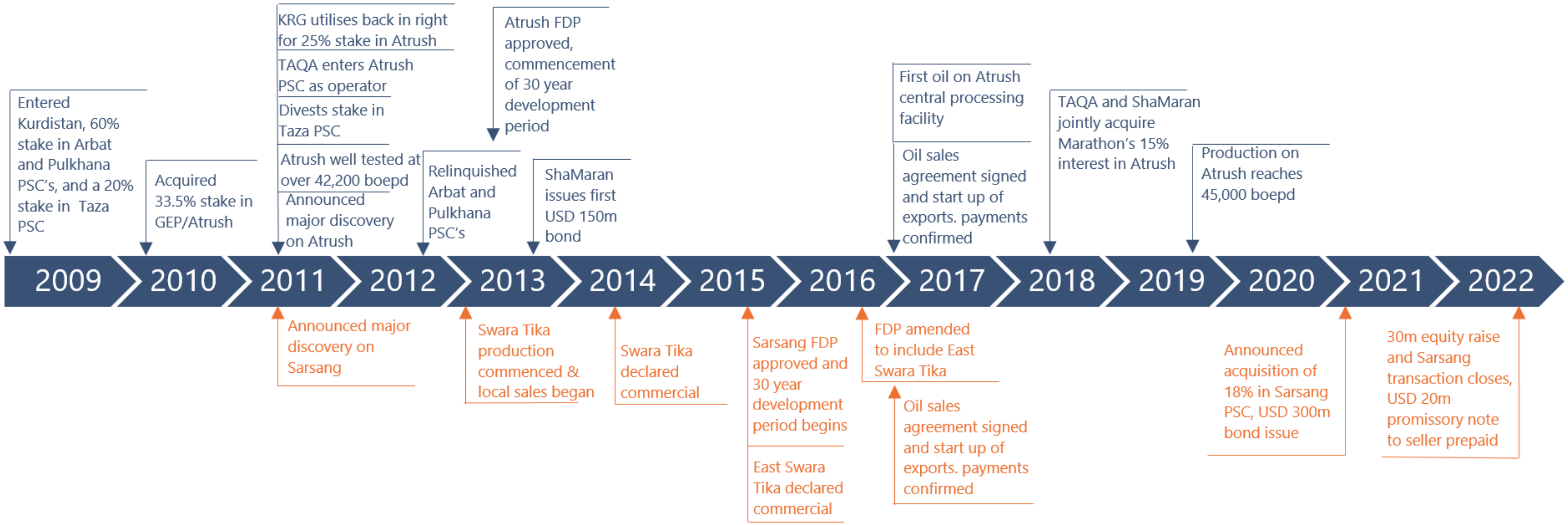
Source: Company information, Stamdata, Arctic Securities Research

ARCTIC SECURITIES

SECTION 7

Kurdistan backdrop

SHAMARAN TIMELINE



Source: Company information, Arctic Securities Research

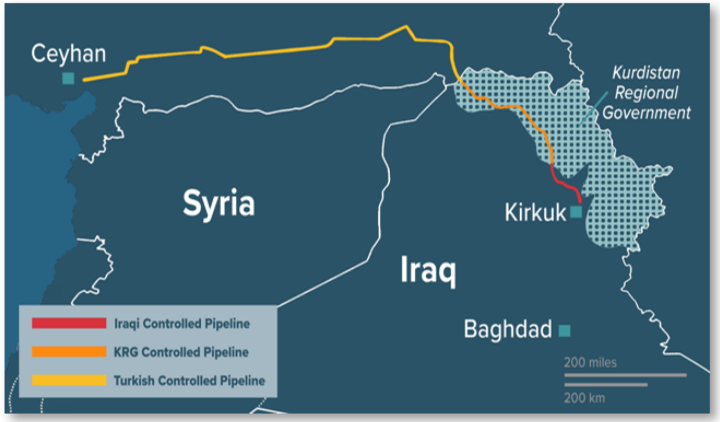
RECENT GEOPOLITICAL FACTORS

Baghdad Supreme court ruling

- There has been a long-going dispute between the KRG and the federal government in Baghdad regarding the interpretation of the Iraqi constitution and the KRG's ability to award PSC contracts and market the oil produced in the region. This dispute has been ongoing since at least 2007, with court filings submitted by the federal government in 2012 and 2019.
- On 15 February 2022 the Supreme Court in Iraq issued a ruling against the legal foundations of the independent oil sector in Kurdistan.
- From the ruling:
  - "The **KRG Oil and Gas Law is unconstitutional and annulled.** (..)
  - The regional government is obliged to **deliver the entire oil production from oil fields in the Kurdistan Region** (..).
  - **The Ministry of Oil has the right to pursue the nullity of the oil contracts concluded by the Kurdistan Regional Government**
  - The Kurdistan Regional Government is also **obliged to enable (..) audit to review all oil contracts** concluded with the KRG (..) for the purpose of auditing it and **determining the financial rights of the KRG**."
- Events since ruling
  - SOMO threatening legal action against KRG crude buyers
  - Blacklisting of oil service companies operating in Kurdistan
  - A Bagdad commercial court declaring several PSC's void
- **Key items to monitor**
  - Ongoing arbitration on the export pipeline, any successful efforts in deterring buyers

Indirect Rosneft exposure

- In late 2017, Rosneft agreed to take control of Iraqi Kurdistan's main export pipeline, pledging an investment of some USD 1.8bn in return for a 60% stake.
- The remaining 40% stake was to remain with KAR Group (KRG controlled).
- The 410km pipeline is currently operated by KPC, a JV between RN Middle East Pte. LTD and KAR Pipelines Ltd. It has a transport capacity/actual of ~1million boepd/430k boepd
- Rosneft's pipeline investment came on top of USD 400m in investment commitments on five exploration blocks, and a USD 1.2bn loan that it provided to the KRG.
- The Rosneft controlled pipeline is the only piped access running through Kurdistan and up to the Turkish border, at which point the oil is transferred to the BOTAS operated pipeline for the last leg through Turkey to the export port of Ceyhan.



Source: Arctic Securities Research, Media reports

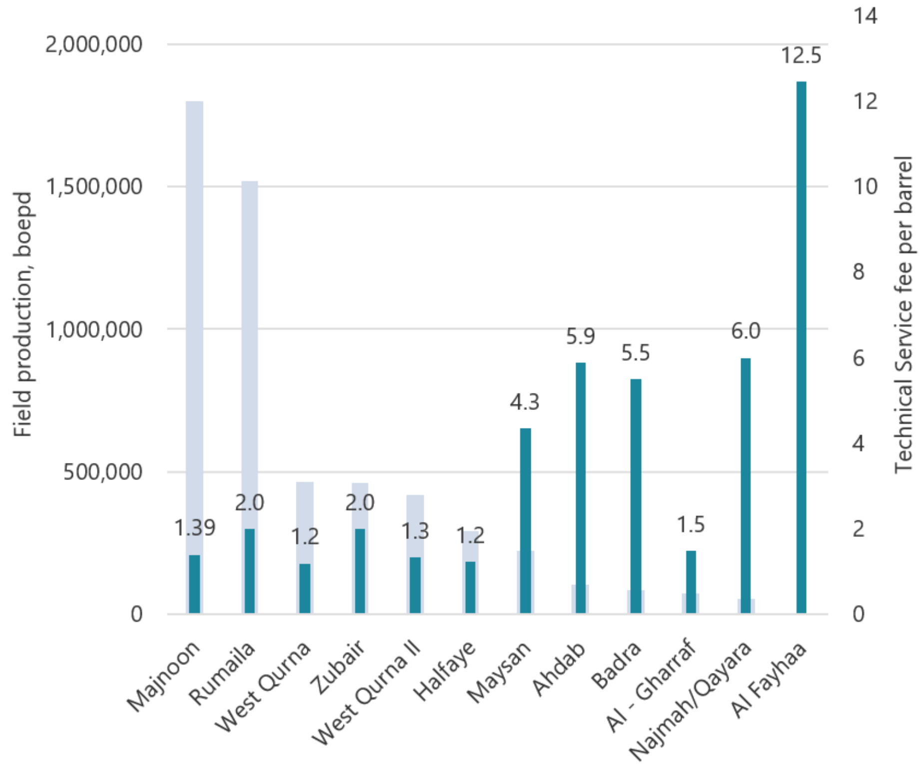
POTENTIAL IMPACT ASSESSMENT

Scenario analysis

- We acknowledge that the final outcome of the Supreme Court ruling still is uncertain, and that the range of outcomes is wide
- We do however see it as fair to assume that the Federal Government in Baghdad, KRG and the IOC's will be aligned on maintaining maximum production in all scenarios
- Given significant experience gathered as operators on its core assets, we hence see it extremely unlikely that the current operators on producing fields will see their licence assets completely revoked
- We then highlight three scenarios

1. **Base case, business as usual**
   Continuation of the current PSC contracts following successful negotiations by the KRG. This will represent a de-risking event and be positive for the Kurdi bonds, and potentially reduce also the longer term risk of operating in the region.
2. **A transition to service contracts and SOMO exports with neutral NPV impact**
   Assuming that Baghdad's issue with the PSCs in Kurdistan mainly is related to Article 111 of the constitution, a transition to service contracts with ~zero impact on NPV cannot be ruled out. This could result in a positive impact on credit risk, as commodity price risk would decline significantly. Arguably, the national government of Iraq could also represent a counterpart with a better credit profile than the KRG.
3. **A transition to service contracts with similar terms as in Southern Iraq**
   The service fee on existing contracts in Iraq varies from USD 1.2/boe to USD 12.5/boe according to 2018 data from IEITI. The service fee is negatively correlated with size, and fields with production in the Kurdistan relevant 50-100k boe/d range, see fees around USD 4-6/boe. Service contracts are subject to a 35% tax rate, but deductible costs result in an average effective tax rate of 30%.

Service contracts



Source: IEITI, Arctic Securities Research

DETAILED SOTP – SERVICE CONTRACT SCENARIO

COMMENTS

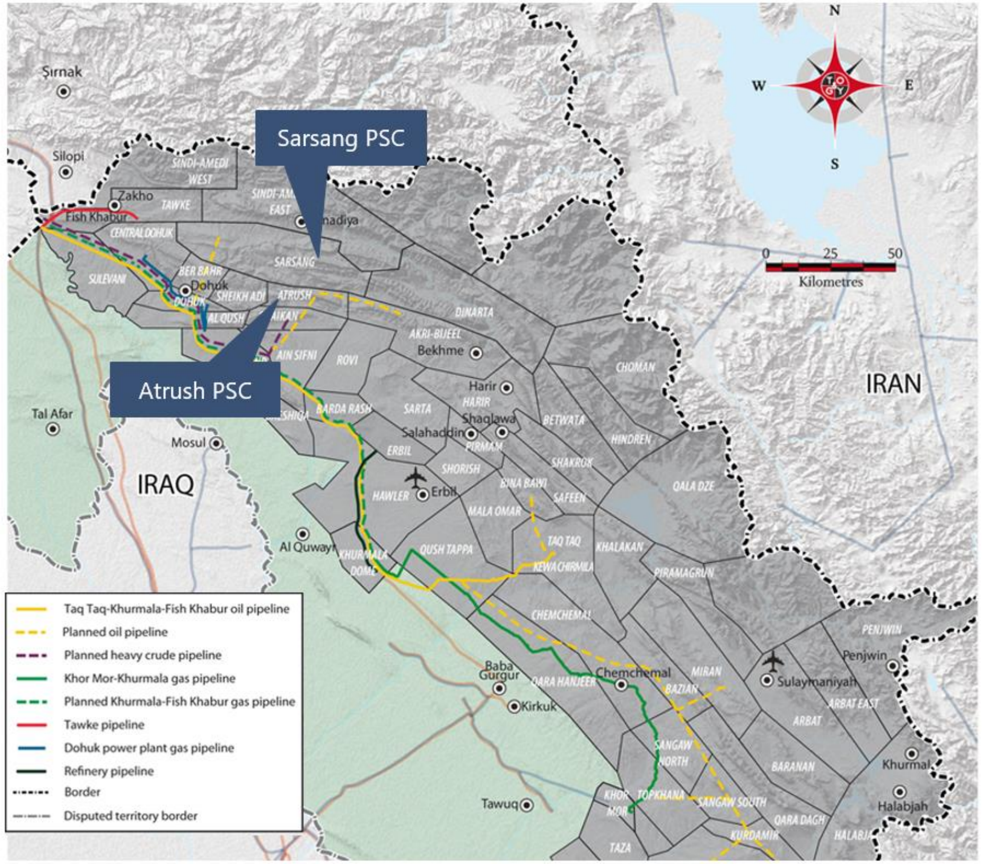
- **Service contract asset values of USD 95-190m:** As an illustration of downside risk related to the ongoing disputes between Baghdad and the KRG, we model service contract scenarios based on our current production assumptions. Based on data from comparable fields in Iraq in terms of production, we base our sensitivity analysis on service contracts in the USD 4-8/boe range. We deduct an effective tax of 30% from the DCF value.
- **Rapid de-risking through FCF:** Until a change to the status quo materializes, ShaMaran will be generating significant FCF at the prevailing oil prices. For 2023, we model an FCF of USD 174m and USD 48m in dividends in our base case scenario. This is forecast to result in a YE'23 net debt position of only USD 25m at max dividends. Dividends are unlikely in a downside scenario, resulting USD 23m net cash. Hence, ShaMaran's current FCF generation effectively reduces the downside risk to an unlikely scenario where the fiscal terms end up being altered. Assuming an implementation from YE'23, we estimate DCF values from service contracts of USD 93-185m (USD 4-8/boe) offering solid asset backing and downside protection for bondholders even in worst case scenarios.
- **Total PSC loss provision:** A loss of the Sarsang and/or Atrush PSC will also likely trigger a Total Loss in accordance with the bond terms and mandatory prepayment of the bonds at par.

Asset	Gross mmboe	WI	Net mmboe	USD/ boe	USD 8/boe	USD 6/boe	USD 4/boe
Atrush	109	27.6%	30.14	3.60	103	77	51
Sarsang	242	18.0%	43.59	2.22	87	65	43
Sum produc	**351**	**21%**	**74**	**2.8**	**190**	**142**	**95**
Total					**190**	**142**	**95**
Overhead					-33	-33	-33
Working capital and financial assets					0	0	0
Overhead & working capital					**-33**	**-33**	**-33**
Gross Asset Value					**157**	**110**	**62**
Net cash (debt),end-23					23	23	23
Core Net Asset Value					**180**	**133**	**85**

Source: Company information, Arctic Securities Research

KURDISTAN LICENCE MAP

Licence and infrastructure overview



Company data, MNR

Licence details

ShaMaran licences

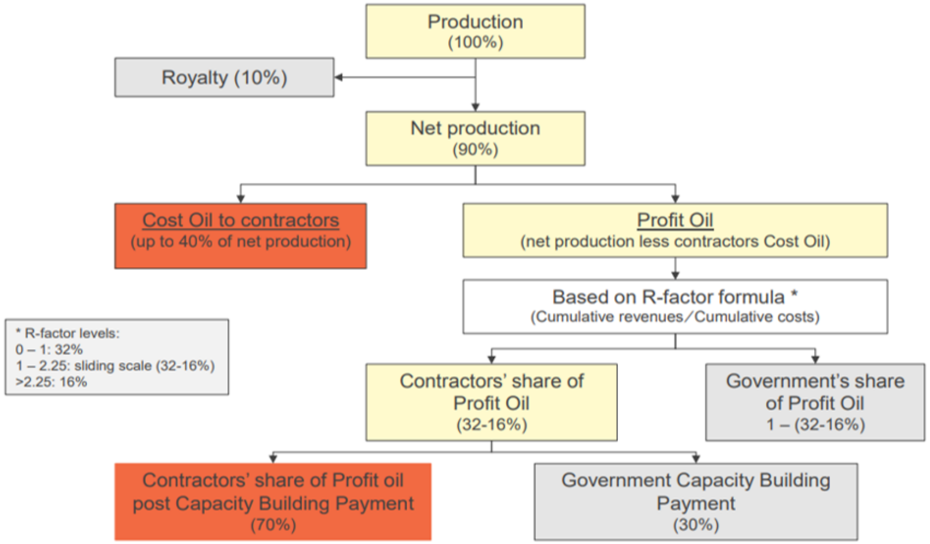
- **Atrush:** TAQA operated, ShaMaran has 27.6% WI
- **Sarsang:** HKN operated with a 62% stake. ShaMaran recently acquired 18% from Total

Other key licences

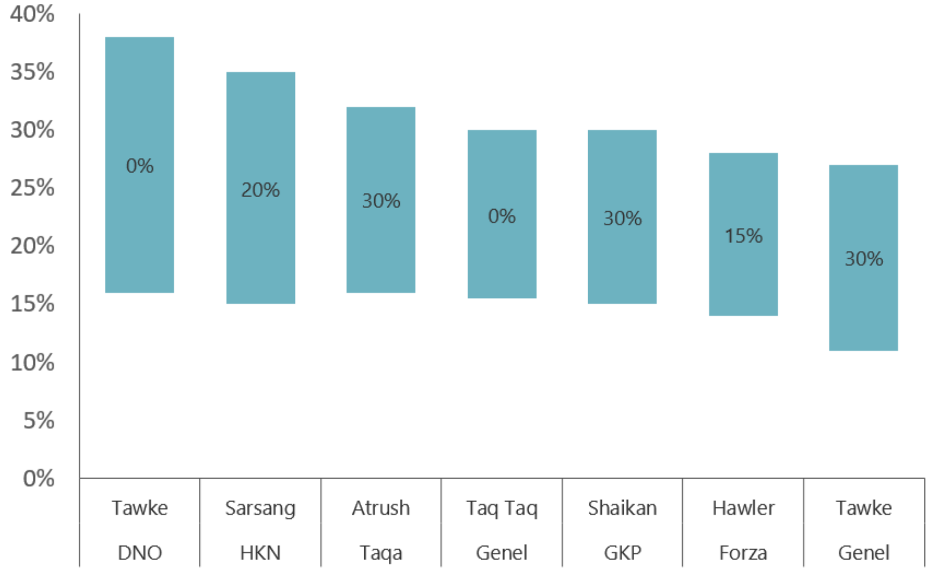
- **Tawke:** Awarded to DNO in 2004 as one of the first PSC's in Kurdistan. Production in excess of 100,000 boepd gross. DNO has a 75% WI, with partner Genel holding the remaining 25%.
- **Baeshiqa:** DNO currently has 64% WI. Acquired 2x32% in 2018 and 2021 from Exxon. Commerciality declared and production to ramp up through 2022.
- **Shaikan:** Awarded to Gulf Keystone in 2007, with commercial production commencing in 2013. GKP has a 80% WI.
- **Taq Taq:** Awarded to Genel in 2002. Genel currently has a 44% WI
- **Sarta:** Genel has 30% WI. Operated by Chevron
- **Qara Dagh:** Genel stepped into the licence as operator in 2019, acquiring 40% from Chevron

KURDISTAN PSC OVERVIEW

PSC Revenue Waterfall- example



PSC fiscal details, key licences



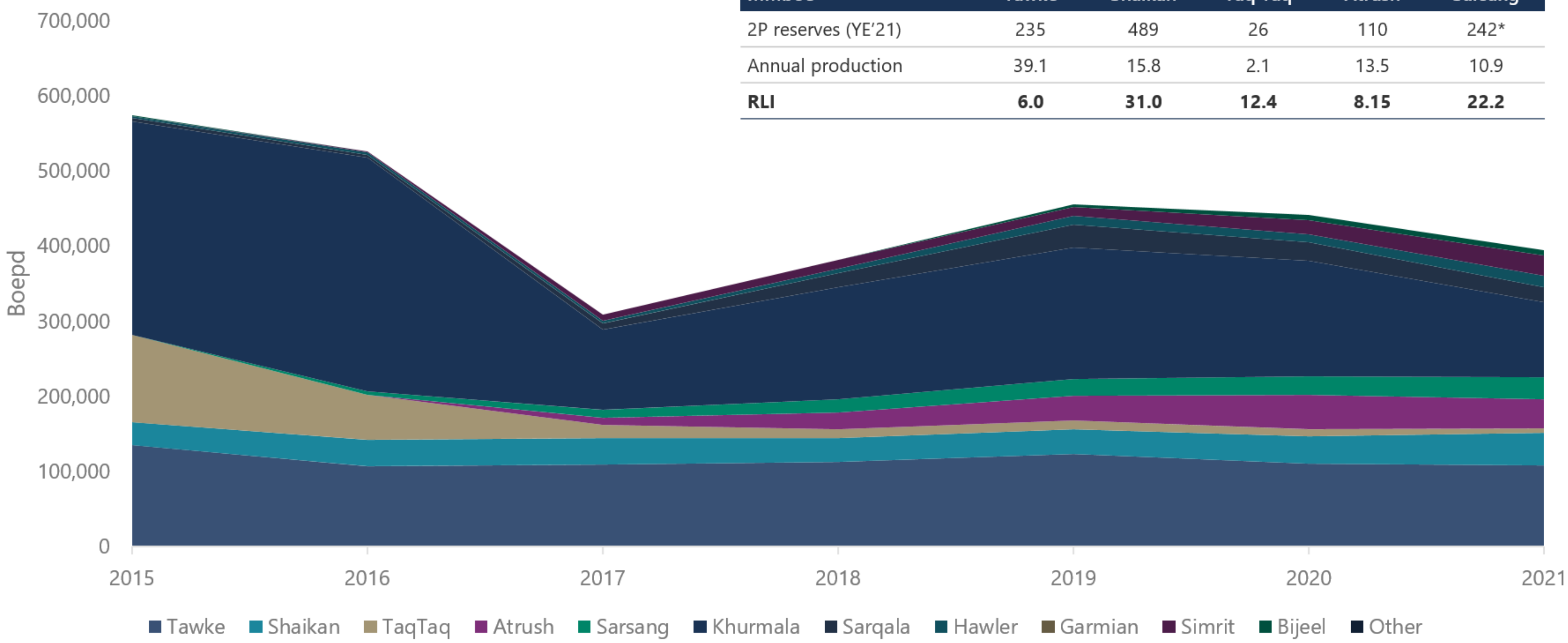
- The columns in the chart show the Profit Oil split dependent on R-factors. Higher figures indicate better fiscal terms for the IOC
- The data label shows the capacity building charge, typically implemented in PSC's from 2011 and onwards. Lower figures indicate better terms for the IOC

Sources: Company data, Western Zagros, Forza, Oil Search, Arctic Research. Note that detailed PSC terms to a lesser degree has been shared publicly over the past years and some figures could be outdated.

KURDISTAN PRODUCTION VOLUMES

Kurdistan production figures per licence

MMboe	Tawke	Shaikan	Taq Taq	Atrush	Sarsang
2P reserves (YE'21)	235	489	26	110	242*
Annual production	39.1	15.8	2.1	13.5	10.9
RLI	**6.0**	**31.0**	**12.4**	**8.15**	**22.2**



Source: Company data, MNR, Rystad. Khurmala production pre-2017 include fields recaptured by Iraqi security forces in 2017. *Sarsang 2P is per Arctic estimate

Profit & loss statement

Profit and loss (USDm)	Dec-18	Dec-19	Dec-20	Dec-21	Dec-22e	Dec-23e
Revenue	**69.60**	**70.29**	**56.67**	**102.32**	**187.20**	**318.36**
Cost of sales	(12.05)	(21.64)	(23.15)	(19.89)	(24.36)	(39.64)
SG&A	(4.56)	(8.43)	(8.18)	(7.84)	(8.19)	(8.60)
Other (gain on sale etc.)	(1.85)	(2.90)	(3.62)	(6.59)	(0.08)	-
Operating expenses	(18.47)	(32.97)	(34.96)	(34.32)	(32.62)	(48.24)
EBITDA	**51.13**	**37.32**	**21.72**	**68.00**	**154.57**	**270.12**
Depreciation	(28.17)	(25.83)	(23.00)	(26.17)	(26.77)	(45.55)
Share of JV and ass. companies	-	(0.94)	(1.66)	(1.63)	(1.58)	-
Other	-	-	(3.20)	2.04	(2.51)	-
EBIT	**22.96**	**10.55**	**(6.14)**	**42.25**	**123.72**	**224.57**
Interest expense	(23.16)	(25.43)	(22.04)	(29.76)	(33.90)	(34.27)
Interest income	2.10	0.83	0.04	0.98	0.75	0.61
Net interest	(21.06)	(24.60)	(22.01)	(28.78)	(33.15)	(33.66)
Other	-	0.75	-	-	-	-
Pre-tax profit	**1.90**	**(13.30)**	**(28.15)**	**13.46**	**90.57**	**190.90**
Income tax	(0.09)	-	(0.05)	(0.08)	(0.08)	(0.08)
Net income	**1.82**	**(13.30)**	**(28.20)**	**13.38**	**90.50**	**190.82**
Attributable to						
Equity holders of the parent	1.82	(13.30)	(28.20)	13.38	90.50	190.82

Per share data (USD)	Dec-18	Dec-19	Dec-20	Dec-21	Dec-22e	Dec-23e
Revenue per share	0.02	0.03	0.02	0.04	0.07	0.11
Adj. EPS	0.00	(0.00)	(0.01)	0.00	0.03	0.07

Adjusted data (USDm)	Dec-18	Dec-19	Dec-20	Dec-21	Dec-22e	Dec-23e
Adj. revenue	69.60	70.29	56.67	102.32	187.20	318.36
Adj. EBITDA	51.13	37.32	21.72	68.00	154.57	270.12
Adj. EBIT	22.96	10.55	(6.14)	42.25	123.72	224.57
Adj. net profit	1.82	(13.30)	(28.20)	13.38	90.50	190.82

Margins	Dec-18	Dec-19	Dec-20	Dec-21	Dec-22e	Dec-23e
Gross margin	82.7%	69.2%	59.1%	80.6%	87.0%	87.5%
EBITDA margin	73.5%	53.1%	38.3%	66.5%	82.6%	84.8%
Adj. EBITDA margin	73.5%	53.1%	38.3%	66.5%	82.6%	84.8%
EBIT margin	33.0%	15.0%	(10.8%)	41.3%	66.1%	70.5%
Adj. EBIT margin	33.0%	15.0%	(10.8%)	41.3%	66.1%	70.5%
Net profit margin	2.6%	(18.9%)	(49.8%)	13.1%	48.3%	59.9%
Adj. net profit margin	2.6%	(18.9%)	(49.8%)	13.1%	48.3%	59.9%

Year-over-year growth	Dec-18	Dec-19	Dec-20	Dec-21	Dec-22e	Dec-23e
Revenue growth		1.0%	(19.4%)	80.5%	82.9%	70.1%
EBITDA growth		(27.0%)	(41.8%)	213.2%	127.3%	74.7%
EBIT growth		(54.0%)	(158.2%)		192.9%	81.5%
Net profit growth		(832.6%)	112.1%		576.2%	110.9%

Source: Arctic Securities Research and Company

Balance sheet

Balance sheet (USDm)	Dec-18	Dec-19	Dec-20	Dec-21	Dec-22e	Dec-23e
Property, plant and equipment	195.9	207.9	146.0	139.0	272.6	276.4
Right-of-use assets	-	0.3	0.2	0.1	0.3	0.3
Intangible assets	67.8	67.6	0.1	0.0	0.0	0.0
Other non-current financial assets	-	0.0	0.0	(0.0)	0.0	0.0
Other non-current assets	25.2	21.4	49.9	-	-	-
Total non-current assets	**288.9**	**297.2**	**196.3**	**139.1**	**272.9**	**276.6**
Receivables	36.1	55.9	18.1	48.2	62.1	78.1
Other current financial assets	-	0.0	(0.0)	-	-	-
Other current assets	2.3	0.3	0.6	9.5	7.2	7.2
Cash and cash equivalents	92.5	15.5	28.4	171.7	132.9	258.7
Total current assets	**130.9**	**71.8**	**47.1**	**229.4**	**202.2**	**344.0**
Total assets	**419.8**	**369.0**	**243.4**	**368.5**	**475.1**	**620.6**
Equity attributable to the parent	154.2	142.3	3.8	18.6	123.2	267.4
Total equity	**154.2**	**142.3**	**3.8**	**18.6**	**123.2**	**267.4**
Long-term interest-bearing debt	236.7	174.5	173.4	-	285.6	285.6
Non-current lease liabilities	-	0.2	0.1	-	-	-
Other non-current financial liabilities	-	(0.0)	(0.0)	-	(0.0)	(0.0)
Other non-current liabilities	10.9	16.8	36.4	42.4	36.4	36.4
Total non-current liabilities	**247.6**	**191.6**	**209.8**	**42.4**	**322.0**	**322.0**
Short-term interest-bearing debt	-	15.0	15.0	281.0	-	-
Payables	3.9	9.0	3.6	10.6	14.2	15.5
Other current financial liabilities	-	0.0	-	(0.0)	-	-
Other current liabilities	14.1	11.1	11.1	15.8	15.8	15.8
Total current liabilities	**18.0**	**35.2**	**29.7**	**307.5**	**30.0**	**31.3**
Total equity and liabilities	**419.8**	**369.0**	**243.4**	**368.5**	**475.1**	**620.6**

Balance data (USDm)	Dec-18	Dec-19	Dec-20	Dec-21	Dec-22e	Dec-23e
Gross debt	236.7	189.5	188.4	281.0	285.6	285.6
Net interest bearing debt	144.2	174.0	160.0	109.3	152.7	26.9
Net interest bearing debt and lease liabilities	144.2	174.2	160.1	109.3	152.7	26.9
Working capital	20.4	36.0	4.0	31.2	39.3	54.0
Capital employed	298.4	316.3	163.8	127.9	275.9	294.3

Source: Arctic Securities Research and Company

Cash flow

Cash flow statement (USDm)	Dec-18	Dec-19	Dec-20	Dec-21	Dec-22e	Dec-23e
Net profit	51.1	37.3	21.7	68.0	154.6	270.1
Change in working capital	7.5	7.9	3.5	18.0	(8.2)	(14.7)
Other	(8.6)	(34.8)	(26.0)	(20.8)	(35.1)	(33.7)
Cash flow from operations	**50.0**	**10.4**	**(0.8)**	**65.2**	**111.4**	**221.8**
Capital expenditures	(12.3)	(37.4)	(8.8)	(14.2)	(158.6)	(49.3)
Other	(0.2)	0.2	(0.1)	0.0	-	-
Cash flow from investing activities	**(12.5)**	**(37.2)**	**(8.9)**	**(14.2)**	**(158.6)**	**(49.3)**
New debt	100.4	-	18.1	109.8	26.6	-
Repayment of debt	(50.4)	(50.1)	(0.1)	(14.3)	(18.0)	-
Change in debt	50.0	(50.1)	17.9	95.5	8.6	-
Equity issue	-	-	4.7	(2.7)	0.7	-
Dividend payment	-	-	-	-	-	(46.6)
Other	5.0	-	-	(1.0)	(1.0)	-
Cash flow from financing activities	**55.0**	**(50.1)**	**22.7**	**91.9**	**8.3**	**(46.6)**
Net cash flow	**92.4**	**(76.9)**	**13.0**	**142.8**	**(38.9)**	**125.9**

Cash flow data (USDm)	Dec-18	Dec-19	Dec-20	Dec-21	Dec-22e	Dec-23e
Free cash flow to firm	42.45	(26.84)	(9.69)	49.96	(48.24)	172.52
Free cash flow to equity	92.45	(76.92)	8.25	145.48	(39.62)	172.52

Source: Arctic Securities Research and Company

Key ratios & Valuation

Market data	Dec-18	Dec-19	Dec-20	Dec-21	Dec-22e	Dec-23e
Avg. shares outstanding (m)	2,805	2,805	2,805	2,805	2,805	2,805
Avg. diluted shares outstanding (m)	2,805	2,805	2,805	2,805	2,805	2,805

Credit metrics	Dec-18	Dec-19	Dec-20	Dec-21	Dec-22e	Dec-23e
NIBD / EBITDA (x)	2.82	4.66	7.37	1.61	0.99	0.10
IBD / EBITDA (x)	4.63	5.08	8.68	4.13	1.85	1.06
IBD / (EBITDA - capex) (x)	6	(2,257)	15	5	(71)	1
IBD / Total assets	56.4%	51.4%	77.4%	76.3%	60.1%	46.0%
Operating cash flow / IBD	21.1%	5.5%	(0.4%)	23.2%	39.0%	77.7%
Free cash flow / IBD	17.9%	(14.2%)	(5.1%)	17.8%	(16.9%)	60.4%
EBITDA / Interest (x)	2.21	1.47	0.99	2.28	4.56	7.88
EBITDA / (Interest+Amortisation) (x)	2.21	1.47	0.99	2.28	4.56	7.88
Equity / total assets	36.7%	38.6%	1.6%	5.0%	25.9%	43.1%

Profitability	Dec-18	Dec-19	Dec-20	Dec-21	Dec-22e	Dec-23e
ROE		(9.0%)	(38.6%)	119.6%	127.7%	97.7%
ROACE		3.4%	(2.6%)	29.0%	61.3%	78.8%

Valuation	Dec-18	Dec-19	Dec-20	Dec-21	Dec-22e	Dec-23e

Source: Arctic Securities Research, Company and Bloomberg

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Company(ies)
ShaMaran Petroleum Corp

Basis and methods for assessment

Recommendations in respect of shares, bonds and related instruments are based on estimates using various standard valuation methods. These methods include analysis of earnings multiples, discounted cash flow calculations, net asset value assessments, credit figures, peer valuation, recovery valuation and qualitative assessment of credit profiles.

Recommendation structure equity

Arctic's research department operates with 3 recommendation categories based on the expected relative return within 6 to 12 months:

Buy The return is estimated to be considerably in excess of the applicable sector/market index return.
Hold The return is estimated to be more or less in line with the applicable sector/market index return.
Sell The return is estimated to be considerably less than the applicable sector/market index return.

Recommendation structure bonds

Arctic's research department uses 3 recommendation categories for bonds based on the expected relative return within 6 to 12 months:

Outperform The bond is currently trading at a wider credit spread than the applicable credit index for the relevant rating category.
Market perform The bond is currently trading at a credit spread in line with the applicable credit index for the relevant rating category.
Underperform The bond is currently trading at a tighter credit spread than the applicable credit index for the relevant rating category.

Please find a list of all research linked to financial instruments or issuers that Arctic has prepared during the past 12 months on www.arctic.com.

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Company(ies)	General investment banking services 1)	Placement of shares or bonds 2)	IPO 3)	Market maker 4)	Compensation 5)	No investment banking services 6)	No compensation 7)
ShaMaran Petroleum Corp	X	-	-	-	X	-	-

1) Arctic has provided general investment banking services to the Company in the previous twelve months.

2) Arctic has acted as financial advisor in connection with a placement of shares or bonds of the Company in the previous twelve months.
3) Arctic has acted as financial advisor in connection with an IPO of the Company in the previous twelve months.
4) Arctic has acted as market maker for the Company in the previous twelve months.
5) Arctic has received compensation for investment banking services from the Company in the previous twelve months.
6) Arctic has not provided any investment banking services to the Company in the previous twelve months.
7) Arctic has not received compensation for investment banking services from the Company in the previous twelve months.

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Company(ies)	Analyst shares 1)	Analyst bonds 2)	Net short position 3)	Net long position 4)
ShaMaran Petroleum Corp	-	-	-	-

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ShaMaran Petroleum Corp

The part of this report concerning ShaMaran Petroleum Corp has been prepared by {Not available}.

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Date	Recommendation	Target ()	Price ()
N/A			

Source: Bloomberg, Arctic Securities Research

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ARCTIC SECURITIES

Contact Information

	Norway	Sweden	USA	Brazil	Germany
Mailing Address:	Arctic Securities AS P.O. Box 1833 Vika NO-0123 Oslo Norway	Arctic Securities AS Sweden Branch Regeringsgatan 38 111 56 Stockholm Sweden	Arctic Securities LLC 1 Rockefeller Plaza Suite 1706, New York NY 10022	Arctic Brasil Escritório de representação Ltda Rua Lauro Müller, 116 - Sala 4404 Torre do Rio Sul / Botafogo 22290-160 Rio de Janeiro	Arctic Securities AS Germany Branch Deichstraße 48/50 20459 Hamburg
Visiting Address:	Haakon VII's gt. 5 0161 Oslo Norway	Arctic Securities AS Sweden Branch Regeringsgatan 38 111 56 Stockholm Sweden	Arctic Securities LLC 1 Rockefeller Plaza Suite 1706, New York NY 10022	Arctic Brasil Escritório de representação Ltda Rua Lauro Müller, 116 - Sala 4404 Torre do Rio Sul / Botafogo 22290-160 Rio de Janeiro	Arctic Securities AS Germany Branch Deichstraße 48/50 20459 Hamburg
Phone:	+47 21 01 31 00	+46 844 68 6100	+1 (212) 597 5555	+5521 2025 7400	+49 40 29999020
E-mail:	mail.no@arctic.com	mail.se@arctic.com	mail.us@arctic.com	mail@arctic.com.br	mail.de@arctic.com
Website:	www.arctic.com/secno				