SHAMARAN PETROLEUM CORP.

MANAGEMENT DISCUSSION AND ANALYSIS
For the three and nine months ended September 30, 2010 and 2009
(Expressed in United States Dollars unless otherwise indicated)

Management's discussion and analysis ("MD&A") of the financial and operating results of ShaMaran Petroleum Corp. (the "Company" or "ShaMaran", and formerly Bayou Bend Petroleum Ltd, together with its subsidiaries the "Group") is prepared as of November 19, 2010. The MD&A should be read in conjunction with the unaudited interim consolidated financial statements for the three and nine months ended September 30, 2010 and 2009, together with the audited consolidated financial statements and MD&A for the years ended December 31, 2009 and 2008. These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Unless otherwise stated herein, all dollar amounts are expressed in US dollars ("USD").

Overview

ShaMaran is a Canadian-based oil and gas company with interests in petroleum properties located in Kurdistan in Northern Iraq ("Kurdistan"). The Company is currently in the pre-production stages of its exploration and development program corresponding to four petroleum properties. ShaMaran trades on the TSX Venture Exchange under the symbol "SNM".

Highlights

- In August 2010, the Group acquired a 33.5% stake in General Exploration Partners Inc, a company which holds an 80% working interest in the Atrush Block Oil and Gas Exploration Area in Kurdistan.
- In August 2010, the Group executed agreements to amend the Pulkhana Block 10 and the Arbat Block Production Sharing Contracts ("PSCs"), which waive the Company of its previous contractual requirement to issue 150 million common shares to the Kurdistan Regional Government of Iraq ("KRG") in exchange for 20% of the Group's profit oil share (produced oil, less royalty and cost oil) from the two PSCs as capacity building payments to the Government.
- The Company raised $47.8 million net cash proceeds through a private placement of 111 million common shares.
- The first exploration well on the Atrush Block was spudded on October 5, 2010, which is targeting the same reservoir sections as the recent major oil discovery by Gulf Keystone Petroleum Ltd, in the adjacent Shaikan structure.
- In October 2010, the Group completed the acquisition of 429.1 km of two dimensional ("2D") seismic data on the Arbat Block in eastern Kurdistan, having already acquired seismic earlier this year on its Pulkhana and K42 Blocks.
- Site preparation is underway for the first well in the Pulkhana Block, with a spud date planned for the first quarter of 2011. The Company has taken a one rig slot assignment for the Sakson PR3 drilling rig which is currently being operated by Niko Resources Ltd in Kurdistan.
- Cash balance of the Company was $70.0 million as at September 30, 2010.

Operations in Kurdistan

The Group has direct working interests in each of the Pulkhana Block, the Arbat Block and Block K42 and has an indirect interest in the Atrush Block. All petroleum properties are located in Kurdistan within the northern extension of the Zagros Folded Belt. The area is currently undergoing a major exploration and development campaign by over 30 mid to large size international oil companies.

Pulkhana Block

The Pulkhana Block is a 529 square km appraisal/development project which in 1956 flowed over 2,900 barrels of oil per day from a well which entered two fractured carbonate reservoirs.

The Company completed the acquisition of 291.4 km of 2D seismic data in April 2010. The seismic campaign was completed on schedule and within budget. Processing and interpretation of the seismic data was completed in July 2010 in preparation for drilling a well on this Block. Procurement activity and site preparation is underway, with a spud date planned for the first quarter of 2011.

The planned well, Pulkhana 9, has been approved by the Ministry of Natural Resources, and will be drilled approximately 2.8 km north west of the 1956 Pulkhana 5 discovery well. Planned total depth is approximately 2,700 meters and the well is targeting the proven Euphrates/Upper Jaddala and Shiranish oil reservoirs, as well as evaluating a further potential reservoir in the Lower Jaddala.

ShaMaran plans to drill 3 wells in the first exploration phase of three years in order to confirm the size and economic viability of the development of the Pulkhana field. The Company will then have the option to continue on to a further two year exploration phase and, if development is warranted, a development period of up to 20 years.

The Company is the operator of the project with a 60% undivided interest in the production sharing contract. Petoil Petroleum and Petroleum Products International Exploration and Production Inc. retains a 20% interest in the PSC and the KRG holds the remaining 20%. The Company is required to pay 100% of the minimum financial commitment in respect of the first exploration phase, following which the Company will pay 75% of the forward costs. Fiscal terms under the PSC include a 10% royalty, a variable profit split, based on a percentage share to the KRG and a capacity building payment equal to 20% of the Company's profit oil share (produced oil, less royalty and cost oil) to be paid to the KRG. The 20% capacity building payment is a result of an amendment made to the PSC in August 2010, relieving the Company of its previous contractual requirement to issue 150 million common shares of the Company to the KRG. The Company has the right to recover costs using up to 40% of the available crude oil (produced oil less royalty oil) and 50% of the produced gas.

Refer also to the discussion under "Commitments" in this MD&A.

Arbat Block

The Arbat Block (formerly Block G) is a 973 square km exploration block located adjacent to the Miran Block of Heritage Oil Plc. The Block contains both surface anticlines and subsurface structures all identified by recent field work and 2D seismic. The Block also has a number of oil seeps, several of which were discovered during the seismic operations now complete.

The Company completed the acquisition of 429.1 km of 2D seismic data in October 2010. The seismic campaign was completed on schedule and within budget. Processing and interpretation of the seismic data is now underway, with drilling of the first well on this Block planned for the fourth quarter of 2011.

The Company is the operator of the project and holds a 60% undivided interest in the production sharing contract, the KRG holds a 20% interest and the remaining 20% is a third party interest which the KRG has the option to assign to a third party or parties. The Company is required to pay 100% of the minimum financial commitment in respect of the first exploration sub period or until such time as the KRG's reserved 20% interest has been sold, following which the Company will pay 75% of the forward costs and receive a reimbursement for 25% of the costs incurred to that date. Fiscal terms under the PSC include a 10% royalty, a variable profit split, based on a percentage share to the KRG and a capacity building payment equal to 20% of the Company's profit oil share (produced oil, less royalty and cost oil) to be paid to the KRG. The 20% capacity building payment is a result of an amendment made to the PSC in August 2010, relieving the Company of its previous contractual requirement to issue 150 million common shares of the Company to the KRG. The Company has the right to recover costs using up to 45% of the available crude oil (produced oil less royalty oil) and 53% of the produced gas.

Refer also to discussion under "Commitments" in this MD&A.

Block K42

Block K42 is located immediately northeast of the Pulkhana Block and is on trend with the Jambur field situated to the north west of the Block.

A campaign to acquire 232.0 km of 2D seismic data on this Block was completed in May 2010. Processing and interpretation of the seismic data is currently underway, and is expected to be completed by the end of the year.

The Company is a party to the K42 Option Agreement between the KRG and Oil Search (Iraq) Limited ("OSIL"), which allows an option to the Company and OSIL to enter into a PSC with the KRG, the terms of which have been agreed in principal, relating to the exploration and development of petroleum resources in the Block K42 contract area located in Kurdistan.

In accordance with the Block K42 PSC, OSIL is the operator and, collectively with the Company, represent the "Contractor". This K42 Option Agreement requires the Contractor to conduct certain seismic services, including the acquisition of 200 kilometers of seismic surveying, within the option period of 18 months commencing November 1, 2009. The option to enter into a PSC may be exercised by providing written notice to the KRG. The Contractor is to pay 100% of all the costs incurred during the option period, 25% of which are to be paid by the Company.

Upon exercise of the option, the Company would acquire not less than an undivided 20% interest in the production sharing contract in respect of the Block K42 contract area, with OSIL holding a 60% interest and the KRG holding the remaining 20%. If either the Company or OSIL elect not to exercise its option in respect of the Contract the other party has the option of acquiring the exiting party's rights and obligations.

Refer also to discussion under "Commitments" in this MD&A.

Atrush Block

In August 2010 the Group acquired a 33.5% shareholding in General Exploration Partners Inc ("GEP"). GEP is the operator of the Atrush Block PSC, holding an 80% working interest in the Block, with the remaining 20% third party interest ("TPI") being held by the KRG. In October 2010, Marathon Oil Corporation was assigned the 20% TPI.

The Atrush Block is located immediately north and adjacent to the major Shaikan discovery announced by Gulf Keystone Petroleum Ltd. in January 2010. The 2D seismic data over the Atrush Block indicates that the Atrush structure is similar to the Shaikan structure. The Shaikan discovery was announced as multiple stacked oil reservoirs in the Cretaceous, Jurassic and Triassic sections. The Atrush Block is also adjacent to and on trend with the recent Bijeel oil discovery to the east, operated by Kalegran Limited (MOL).

The Atrush 1 exploration well was spudded on October 5, 2010 and will be drilled to a planned depth of 3,100 meters. The well is prognosed to encounter the same reservoir sections as Shaikan and will also test the structural extension of the Shaikan discovery into the Atrush Block as indicated from the 2D seismic data. Of the ten expected target reservoirs in Atrush 1, nine were confirmed to be oil-bearing in Shaikan, while the Lower Kurra Chine encountered high pressure gas. There is also additional upside potential in the shallower Cretaceous Qamchuga formation, and the deeper Permian section (not reached in Shaikan), which is also indicated by seismic data to have closure in the Atrush Block.

Under the terms of PSC, the KRG has the option of participating in the PSC with an undivided interest, of up to 20% and not less than 5%, in the petroleum operations and all the other rights, duties, obligations and liabilities associated with the PSC. If this option is exercised, the government will become liable for their share of the petroleum costs incurred on or after the first commercial declaration date. Fiscal terms under the PSC include a 10% royalty, a variable profit split, based on a percentage share to the KRG and a capacity building payment equal to 30% of profit oil (produced oil, less royalty and cost oil) to be paid 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.

Refer also to discussion under "Commitments" in this MD&A.

Selected Quarterly Information

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

	For the Quarter Ended							
	Sep-30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31
($000s, except per share data)	2010	2010	2010	2009	2009	2009	2009	2008
Continuing operations								
Depreciation	(41)	(29)	(26)	(6)	-	-	-	-
General and administrative	(643)	(360)	(219)	(556)	(642)	(595)	(595)	(97)
Stock based compensation	(70)	(114)	(204)	(99)	(366)	(81)	-	(78)
Guarantee fees	(456)	(448)	(458)	(636)	-	-	-	-
Interest income	99	74	66	76	62	52	129	227
Loss from investment in company	(73)	-	-	-	-	-	-	-
Foreign exchange gain (loss)	501	(1,764)	1,694	32	4,143	2,214	(1,446)	(3,575)
Income tax	(16)	(14)	(13)	(12)	-	-	-	-
Net (loss)/income from continuing operations	(699)	(2,655)	840	(1,201)	3,197	1,590	(1,912)	(3,523)
Discontinued operations								
Net revenues	-	-	-	-	-	943	715	1,663
Expenses	(48)	(729)	(190)	1,459	119	(748)	(2,861)	(70,337)
Interest income	-	1	2	3	12	-	-	41
Gain loss on sale of assets	-	-	77	(4)	(173)	1,777	-	-
Net (loss)/income from discontinued operations	(48)	(728)	(111)	1,458	(42)	1,972	(2,146)	(68,633)
Net income/loss	(747)	(3,383)	729	257	3,155	3,562	(4,058)	(72,156)
Basic income (loss), $ per share:								
Continuing operations	-	(0.01)	-	-	0.01	0.01	(0.01)	(0.01)
Discontinued operations	-	-	-	-	-	0.01	(0.01)	(0.22)
	-	(0.01)	-	-	0.01	0.02	(0.02)	(0.23)
Diluted income (loss), $ per share:								
Continuing operations	-	(0.01)	-	-	0.01	0.01	(0.01)	(0.01)
Discontinued operations	-	-	-	-	-	0.01	(0.01)	(0.22)
	-	(0.01)	-	-	0.01	0.02	(0.02)	(0.23)

In the third quarter of 2010, the Company continued its exploration campaign in respect of its Kurdish petroleum properties, constituting the continuing operations of the Company, and which have no corresponding revenue.

Results of Continuing Operations

The various income and expenses from continuing operations are explained as follows:

Depletion, Depreciation and Amortization

	For the three months ended September 30,		For the nine months ended September 30,	
	2010	**2009**	**2010**	**2009**
	$'000	**$'000**	**$'000**	**$'000**
Depletion, depreciation and amortization	41	-	96	-

Depletion, depreciation and amortization corresponds to cost of use of the furniture and IT equipment at the Company's technical and administrative offices located in Switzerland and Kurdistan.

General and Administrative Expenses

	For the three months ended September 30,		For the nine months ended September 30,	
	2010	**2009**	**2010**	**2009**
	$'000	**$'000**	**$'000**	**$'000**
Management and consulting fees	107	91	207	424
General and other office expenses	50	293	201	587
Legal, accounting and audit fees	1	258	175	821
Sponsorship expense	485	-	484	-
Investor field trip	-	-	216	-
Reclassification of legal fees from discontinued operations	-	-	(61)	-
Total general and administrative expenses	**643**	**642**	**1,222**	**1,832**

The decrease in general and administrative expenses for the nine months ended September 30, 2010, is primarily due to incurring less professional fees and support costs which were required in the reorganization of the Company in the comparable period of the prior year.

Stock-Based Compensation

	For the three months ended September 30,		For the nine months ended September 30,	
	2010	**2009**	**2010**	**2009**
	$'000	**$'000**	**$'000**	**$'000**
Stock-based compensation	70	366	388	447

The stock-based compensation expense in 2010 and 2009 results from the vesting of stock options granted from 2008 to 2010. A total of 1,240,000 stock options were granted during the nine months ended September 30, 2010 (2009: 2,085,000). The Company uses the fair value method of accounting for stock options granted to directors, officers, employees and consultants whereby the fair value of all stock options granted is recorded as a charge to operations. The fair value of common share options granted is estimated on the date of grant using the Black-Scholes option pricing model.

Foreign Exchange Gain

	For the three months ended September 30,		For the nine months ended September 30,	
	2010	**2009**	**2010**	**2009**
	$'000	**$'000**	**$'000**	**$'000**
Foreign exchange gain	501	4,143	431	4,911

The gain in 2010 results primarily from holding cash and cash equivalents denominated in Canadian dollars while the Canadian dollar strengthened during the reporting period against the reporting currency of the Company, the United States dollar.

Guarantee fees

	For the three months ended September 30,		For the nine months ended September 30,	
	2010	**2009**	**2010**	**2009**
	$'000	**$'000**	**$'000**	**$'000**
Guarantee fees	456	-	1,363	-

The Company incurred fees in respect of a guarantee of the minimum financial obligations under the Pulkhana and Arbat PSCs which were provided to the KRG by a related company on behalf of the ShaMaran. Refer also to discussion under "Related Party Transactions" in this MD&A.

Interest income

	For the three months ended September 30,		For the nine months ended September 30,	
	2010	**2009**	**2010**	**2009**
	$'000	**$'000**	**$'000**	**$'000**
Interest income	99	62	239	243

Interest income represents bank interest earned on cash and investments in marketable securities.

Loss from investment in Company

	For the three months ended September 30,		For the nine months ended September 30,	
	2010	**2009**	**2010**	**2009**
	$'000	**$'000**	**$'000**	**$'000**
Loss from investment in Company	73	-	73	-

The loss relates to the Company's investment in GEP, acquired in August 2010, and is attributable to costs which are considered non-recoverable under the terms of the PSC.

Tax expense

	For the three months ended September 30,		For the nine months ended September 30,	
	2010	**2009**	**2010**	**2009**
	$'000	**$'000**	**$'000**	**$'000**
Tax expense	16	-	43	-

Income tax expense in 2010 relates to a provision for income tax on service income generated in the Swiss branch entity of the Group, which was created in the fourth quarter of 2009. There was no income tax expense reported in the comparable periods in 2009 as there was no taxable income in any of the Group companies.

Results of Discontinued Operations

The main components in revenue and expense of discontinued operations are explained as follows:

Net revenues

	For the three months ended September 30,		For the nine months ended September 30,	
	2010	**2009**	**2010**	**2009**
	$'000	**$'000**	**$'000**	**$'000**
Oil and gas sales	-	-	-	2,089
Royalties	-	-	-	(431)
Net revenue	**-**	**-**	**-**	**1,658**

The decrease in revenues is a result of the termination of all production and corresponding sales coinciding with the sale of substantially all of the Company's United States Gulf of Mexico properties that concluded May 28, 2009.

Expenses

	For the three months ended September 30,		For the nine months ended September 30,	
	2010	**2009**	**2010**	**2009**
	$'000	**$'000**	**$'000**	**$'000**
Operating, exploration and dry-hole costs	-	-	10	1,605
Asset retirement obligation	-	-	339	-
Provision for insurance recoverable	-	-	77	-
Accretion	-	-	-	12
Depletion, depreciation and amortization	-	-	-	447
Impairment	-	-	-	38
Foreign exchange gain	-	(238)	-	(238)
Salaries and benefits	-	-	-	1,160
Management and consulting fees	55	-	290	-
Legal, accounting and audit fees	17	-	156	-
General and other office expenses	4	119	58	466
Reclassification of legal fees from continuing operations	-	-	61	-
Reclassification for overstatement of legal fees	(28)	-	(28)	-
Expenses	**48**	**119**	**963**	**3,490**

The provision for insurance recoverable relates to a hurricane damage claim that was written down to $238,000, which was received during the third quarter of this year.

Interest income

	For the three months ended September 30,		For the nine months ended September 30,	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
Interest income	-	12	-	12

Interest income represents bank interest earned on cash and investments in marketable securities.

(Loss)/gain on disposal of assets from discontinued operations

	For the three months ended September 30,		For the nine months ended September 30,	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
(Loss)/gain on asset disposal	-	(173)	77	1,604

In the nine months ended September 30, 2010, the Company had a gain of $77,000 on the disposal of all remaining operational inventories located in the United States. In the comparable period in 2009, the Company realized a gain of $1,604,000 on the disposal of substantially all oil and gas properties located in the United States.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Outstanding Share Data

As of September 30, 2010, the Company had 623,157,194 shares outstanding, 4,435,000 stock options outstanding under its stock-based compensation plan, and zero warrants outstanding.

In August 2010, the Group executed agreements with the KRG to amend the Pulkhana Block 10 and the Arbat Block PSCs. The amendments relieve the Group of its previous contractual requirement to issue 150 million common shares of the Company to the KRG requiring the Group to contribute 20% of its profit oil share (produced oil, less royalty and cost oil) from the Pulkhana Block 10 PSC and the Arbat Block PSC as capacity building payments to the Government. At September 30, 2010, the amount previously recognized as shares to be issued of $61,349,000 was reversed with a corresponding decrease to the cost of the Group's petroleum properties reported on the consolidated balance sheet within property, plant and equipment assets.

Related Party Transactions

Namdo Management Services Ltd. ("Namdo") provides corporate administrative support and investor relation services to the Company under an agreement which commenced April 1, 2007. The Company incurred fees for these services and associated reimbursable costs of $23,000 (2009: $64,000) and $110,000 (2009: $163,000), for the three and nine months ended September 30, 2010, respectively. Namdo is a private corporation owned by a shareholder of the Company. There was no amount owing to this related party at September 30, 2010 (2009: $32,000).

Mile High Holdings Ltd., a private corporation associated with a shareholder of the Company, provided transportation services to the Company relating to its fundraising activities in the amount of $139,000 (2009: $nil) during the nine months ended September 30, 2010. No services were provided to the Company during the three months ended September 30, 2010 (2009: $nil). There was no amount owing to this related party at September 30, 2010 (2009: $nil).

During the three and nine months ended September 30, 2010, the Company incurred legal fees of $19,000 (2009: $13,000) and $60,000 (2009: $75,000), respectively, with a law firm in which an officer of the Company is a partner. The amount owing to this related party at September 30, 2010 was $7,000 (2009: $6,000).

The Company receives services from various subsidiary companies of Lundin Petroleum AB ("Lundin"), a shareholder of the Company. Lundin charges for the three and nine months ended September 30, 2010 were $757,000 (2009: $159,000) and $2,351,000 (2009: $159,000), respectively. The charges for the three and nine months ended September 30, 2010, were comprised of G&G and other technical service costs of $45,000 (2009: $68,000) and $169,000 (2009: $68,000), reimbursement for Company travel and related expenses of $164,000 (2009: $91,000) and $497,000 (2009: $91,000), office rental, administrative and building services of $92,000 (2009: $nil) and $322,000 (2009: $nil), and charges of $456,000 (2009: $nil) and $1,363,000 (2009: $nil) relating to a guarantee provided to the KRG on behalf of the Company in respect of its minimum financial commitments, charged at a rate of 3% per annum, and payable semi-annually. The amount owing to Lundin at September 30, 2010 was $545,000 (2009: $159,000).

Total amounts owing to related parties as at September 30, 2010 and 2009 were $552,000 and $197,000, respectively. The Company was owed no amounts by related parties at the reporting dates.

All transactions with related parties are recorded at amounts agreed to by the parties and are made on the same terms and conditions as with non-related parties.

Liquidity and Capital Resources

Working capital at September 30, 2010 totaled $46,926,000, compared to $58,189,000 at September 30, 2009.

Funds provided by continuing operations were $17,139,000 (2009: $3,874,000) and $6,554,000 (2009: $3,670,000) for the three and nine months ended September 30, 2010. The primary source of funds provided in 2010 was the private placement of 111 million common shares of the Company in September 2010, raising net proceeds of $47,815,000.

Net cash was provided by financing activities from continuing operations of $47,815,000 during the three and nine months ended September 30, 2010, compared to net cash provided of $311,000 and $348,000 in the comparable periods of 2009. The amount provided in 2010 was due to the issuance of 111,111,106 common shares at CAD $0.45 per share, less brokerage fees and other issuance costs.

Net cash used by investing activities in continuing operations was $33,447,000 and $42,190,000 for the three and nine months ended September 30, 2010, respectively, compared to no movement in funds due to investing activities in the comparable periods of 2009. During 2010, the main components of cash used by investing activities in continuing operations were the investment in GEP for total cash consideration of $24,342,000 and $17,504,000 of exploration costs associated with the seismic acquisition and drilling programs of the Group's petroleum properties in Kurdistan.

Net cash provided by discontinued operations was $119,000 for the three months ended September 30, 2010 and net cash used by discontinued operations was $105,000 for the nine months ended September 30, 2010. The primary source of funds for the three months ended September 30, 2010, was receipt of $238,000 in respect of an insurance claim for hurricane damages associated with the Group's discontinued operations, offset by payment for professional and consulting fees relating to the close-out of operations in the United States. During the nine months ended September 30, 2010, the main components of cash used from discontinued operations was a $413,000 payment made to a joint venture partner for the settlement of an outstanding account and payment for professional and consulting fees relating to the close-out of operations in the United States, offset by proceeds of $277,000 from the sale of all remaining inventories in the United States and receipt of $238,000 in respect of an insurance claim for hurricane damages associated with the Group's discontinued operations. The primary source of funds in 2009 was the proceeds from the sale of substantially all of the Company's petroleum properties located in the United States that took place in May 2009.

The Company does not currently generate cash flow from its oil exploration and development operations. The Company has relied upon the issuance of common shares to finance its ongoing oil exploration, development and acquisition activities. The Company has sufficient financial resources to fund operations through the current agreed work plan. Continuing operations are dependent on discovery of economic oil and gas reserves and ultimately on the attainment of profitable operations.

Contributed surplus increased by $388,000 (2009: $156,000) in the nine months ended September 30, 2010 due to stock-based compensation expense during the period. When options are granted, the Black-Scholes option value method is used to calculate a value for the stock options. When the options are exercised, the applicable amounts of contributed surplus are transferred to share capital. There were no options exercised during 2010 (2009: $790,000).

Commitments

Production Sharing Contracts

The Group had a combined $61.0 million minimum financial commitment in respect of the first exploration sub-period relating to the PSCs governing its petroleum operations in two separate petroleum exploration and development properties, the Pulkhana Block 10 ("Pulkhana Block") and the Arbat Block, located in the Kurdistan Region of Iraq. The PSCs also require the Group to fund certain personnel, training, environmental, and technological assistance projects, during the period over which the contracts are in effect. As at September 30, 2010, the Group had executed $11.0 million of its minimum financial obligations through the completion of its 2D seismic acquisition program in both Blocks.

Block K42

As a party to the K42 Option Agreement the Company was required to contribute to the cost of conducting certain seismic services, including the acquisition of 2D seismic data. The Company estimates as at September 30, 2010 its remaining minimum commitments under the K42 Option Agreement to be approximately $0.1 million. Provided that seismic services are completed prior to the expiry of K42 Option Agreement, the option to enter into a PSC may be exercised by providing written notice to the KRG.

Investment in GEP

As part of the acquisition of GEP, the Group has a future obligation to contribute the next $15.8 million in cash which will be required to fund GEP's oil exploration and development operations.

Financial Instruments

The Company's financial instruments consist of cash, cash equivalents, short-term investments, accounts receivable, accounts payable, accrued expenses and net payable to joint venture partner.

Cash, cash equivalents and short-term investments are designated as held for trading and are therefore carried at fair value, with unrealized gains or losses recorded in interest income.

The fair values of cash, cash equivalents, accounts receivable, accounts payable, accrued expenses and net payable to joint venture partner approximate carrying values because of the short-term nature of these instruments. The fair values of short-term investments are determined directly by reference to quoted market prices.

The Company is exposed in varying degrees to a variety of financial instrument related risks.

Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company manages its credit risk through monitoring counterparty ratings and credit limits. The Company is mainly exposed to credit risk on its cash and cash equivalents and accounts receivable. To manage this risk the Company maintains its excess cash 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.

Accounts receivable are primarily with joint venture partners in the oil and gas industry and are subject to normal industry credit risks. Joint venture receivables are typically collected within one to two months of the joint venture bill being issued to the partner. The Company mitigates risks arising from joint venture receivables by obtaining partner approval of capital expenditures prior to starting a project.

Liquidity Risk

Liquidity risk is the risk that the Company will incur difficulties meeting its financial obligations as they become due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, without incurring unacceptable losses or risk harm to the Company's reputation.

The Company prepares annual capital expenditure budgets, which are regularly monitored and updated as considered necessary. The Company requires authorizations for expenditure on both operating and non-operating projects to further manage capital expenditures.

Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, commodity prices and interest rates, will affect the Company's net earnings or the value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing returns.

The significant market risk exposures to which the Company is exposed are foreign currency, commodity price and interest rate risks.

Foreign currency risk – The Company maintains a substantial portion of its cash in Canadian dollars; however, the Company's operations are conducted predominantly in United States dollars. The Company's operating results and cash flows are affected to varying degrees by the changes in the Canadian dollar relative to the United States dollar. The Company has not entered into any agreements or purchased any instruments to hedge possible currency risks.

Commodity price risk – The prices that the Company may receive for its crude oil and natural gas production may have a significant impact on its revenue and cash provided by operating activities. Any significant price decline in commodity prices would adversely affect the amount of funds available for capital reinvestment purposes. At this time the Company does not use derivative financial instruments to manage its exposure to this risk.

Interest rate risk – The Company's bank accounts earn interest income at variable rates. The Company's future interest income is exposed to changes in short-term rates.

Uncertainty of title

Although the Company conducts title reviews prior to acquiring an interest in a property, such reviews do not guarantee or certify that an unforeseen defect in the chain of title will not arise that may call into question the Company's interest in the production sharing contracts. Any uncertainty with respect to one or more of the Company's production sharing contracts could have a material adverse effect on the Company's business, prospects and results of operations.

Risks and Uncertainties

The majority of ShaMaran's assets are located in Kurdistan. ShaMaran operates in areas which are under foreign governmental sovereignty and is therefore subject to political, economic, and other uncertainties associated with foreign operations, which include (but are not limited to) the exposure of the Company to changes in general government policies and legislation, change in the energy policies or in their administration, changes in fiscal terms of a production sharing contract with the government, inability to export the petroleum produced under contract, adverse determinations or rulings by governmental authorities, nationalization, currency fluctuations and devaluations, as well as risks of loss due to civil strife, acts of war, guerrilla activities and insurrections.

Political Issues

The political and security situation in Iraq is not settled and is volatile. There are significant outstanding political issues and differences between the various political factions in Iraq. These differences could adversely impact ShaMaran's interests in Kurdistan. In addition, certain borders of Kurdistan remain the subject of final determination, the result of which may have an adverse effect on ShaMaran's assets.

Legislative Issues

All contracts in Kurdistan are issued under the Oil and Gas Law of The Kurdistan Region - Iraq. No federal Iraqi legislation has been enacted by the Iraq Council of Ministers (Cabinet) and Council of Representatives (Parliament). The lack of legislation, or the enactment of federal legislation contradictory to Kurdistan Region legislation, could have a material adverse impact on ShaMaran's interests in the region.

Marketing, Markets and Transportation

The export of oil and gas from Kurdistan remains subject to uncertainties which could have an adverse impact on ShaMaran's ability to export and market such oil and gas. Further, ShaMaran's ability to market its oil and gas may also depend upon its ability to secure transportation and delivery, in view of related issues such as the proximity of its potential production to pipelines and processing facilities. Potential government regulation relating to price, quotas and other aspects of the oil and gas business could also have an adverse impact.

Exploration, Development and Production Risks

Oil and gas operations involve geological, technical and commercial risks. ShaMaran's success will depend on its ability to find, appraise, develop and commercially produce oil and gas resources and reserves. Future oil and gas exploration may involve risks relating to dry holes, wells which do not produce sufficient petroleum to return a profit after drilling, operating and other costs. In addition, operations can be effected by drilling hazards, environmental damage, and other field operating conditions which could adversely affect production and increase the cost of operations. Diligent operations can contribute to maximizing production rates over time but production delays and declines from normal field operating conditions cannot be eliminated and can adversely affect revenue and cash flow levels.

Project Risks

ShaMaran's ability to execute projects and market oil and gas will depend upon numerous factors beyond ShaMaran's complete control. Factors such as obtaining approvals from relevant authorities, issues relating to security in the area of operation, adverse legislation in Kurdistan and/or Iraq, the regulation of the oil and gas industry by various levels of government and governmental agencies in Kurdistan and/or Iraq could adversely impact the execution of ShaMaran's projects.

Substantial Capital Requirements

ShaMaran anticipates making substantial capital expenditures in the future for the acquisition, exploration, development and production of oil and gas reserves. ShaMaran's results will impact its access to the capital necessary to undertake or complete future drilling and development programs. ShaMaran's ability to access the equity or debt markets in the future may be affected by any prolonged market instability. There can be no assurance that debt or equity financing, or future cash (if any) generated by operations, would be available or sufficient to meet these requirements or for other corporate purposes or, if debt or equity financing is available, that it will be on terms acceptable to ShaMaran. The inability of ShaMaran to access sufficient capital for its operations could have a material adverse effect on ShaMaran's financial condition, results of operations and prospects.

Additional Funding Requirements

ShaMaran's cash balances may not be sufficient to fund its ongoing activities at all times. From time to time, ShaMaran may require additional financing in order to carry out its oil and gas acquisition, exploration and development activities. Failure to obtain such financing on a timely basis could cause ShaMaran to forfeit its interest in certain properties, miss certain acquisition opportunities and reduce or terminate its operations. ShaMaran's ability to access the equity or debt markets in the future may be affected by any prolonged market instability.

Dilution

ShaMaran may make future acquisitions or enter into financings or other transactions involving the issuance of securities of ShaMaran which may be dilutive to the existing shareholders.

Accounting Policies and Critical Accounting Estimates

Use of Estimates

The consolidated financial statements of the Company have been prepared by management in accordance with accounting principles generally accepted in Canada. In preparing financial statements, management makes informed judgments and estimates that affect the reported amounts of assets and liabilities as of the date of the financial statements and affect the reported amounts of revenues and expenses during the period. Specifically, estimates were utilized in calculating depletion, asset retirement obligations, stock-based compensation, amortization and impairment write-downs. 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 wells that find proved reserves and costs of drilling and equipping development wells are capitalized and subject to annual impairment testing.

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 as long as sufficient progress is being made to assess the reserves and economic viability of the well and or related project.

Capitalized costs of proved oil and gas properties are depleted using the unit of production method based on estimated gross proved 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 developed 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 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 impairment. The impairment test is initially based on undiscounted future cash flows from proved and risk adjusted probable reserves. If an impairment is identified, fair value is calculated as the present value of estimated expected discounted cash flows from proved and risk-adjusted probable reserves. Any impairment loss is the difference between the carrying value of the petroleum property and its fair value. Therefore, if it is determined that the estimated fair value is less than the net carrying amount, a write-down to the oil and gas property's fair value is recognized during the period, with a charge to earnings.

Estimates of future cash flows used in the evaluation of impairment of assets are performed based on risk assessments on field and reservoir performance and include assumptions regarding commodity prices, discount rates and future costs.

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

The Company engaged Petrotech Engineering Ltd, an independent geoscience consultancy firm, to evaluate 100% of the Company's reserves data at December 31, 2009. The estimation of reserves is subjective. Forecasts are based on engineering data, future prices, expected future rates of production and the timing of capital expenditures, all of which are subject to uncertainties and interpretations. All of the Company's proved and probable oil and gas reserves at December 31, 2008 were sold to third parties during the first half of 2009.

International Financial Reporting Standards

In February 2008, the Canadian Accounting Standards Board confirmed that Canadian generally accepted accounting principles (Canadian GAAP) will be converged with International Financial Reporting Standards (IFRS) for fiscal years commencing January 1, 2011. The transition from Canadian GAAP to IFRS will be applicable for the Company for the first quarter of 2011 when the Company will prepare both the current and comparative financial information using IFRS. While IFRS uses a conceptual framework similar to Canadian GAAP, there are significant differences on recognition, measurement and disclosures.

The Company has commenced the process to transition from current Canadian GAAP to IFRS. There are three phases in the process: diagnostic, detailed assessment and design and implementation. The Company's IFRS conversion process is progressing according to a changeover plan and timetable established by management as follows:

Accounting policies (ongoing – to be finalized before IFRS reporting in 2011)

Based on work completed to date, management has determined that the adoption of IFRS is likely to impact the Company's accounting for several areas, including PP&E, investments and income taxes. Matters impacting accounting for PP&E include the evaluation of impairment, accounting for asset retirement obligations, taxation and other adjustments considered to be minor.

The areas impacted by IFRS discussed above should not be regarded as a comprehensive list of changes that will result from the transition to IFRS. Management continues to monitor the development of standards which could be subject to change prior to adoption in 2011.

Impairments – Canadian GAAP requires a two-step approach to impairment testing. Undiscounted cash flows are first compared to asset carrying values to determine whether impairment exists. If so, impairment is measured by comparing asset carrying values with fair values calculated using discounted cash flows.

IFRS uses a one-step approach to testing for and measuring of impairment, with asset carrying values compared directly with the higher of fair value less cost to sell and value-in-use (which uses discounted future cash flows). This could lead to additional impairment write-downs where carrying values were previously supported under Canadian GAAP on an undiscounted cash flow basis.

IFRS may result in greater variability in net income and carrying values of PP&E.

Asset Retirement Obligations – Under IFRS, a change in the current market-based discount rate will result in a change in the measurement of the provision, whereas a change in the discount rate alone does not result in a re-measurement of the ARO liability under Canadian GAAP. As market-based discount rates change, IFRS may result in greater volatility in an asset retirement obligation held by the Company, the carrying values of PP&E and net income.

Income taxes – IFRS differs from Canadian GAAP for purposes of recognizing future taxes, specifically in relation to intercompany transfers, asset acquisitions, foreign currency and other areas. Due to these differences and the potential tax effects of other IFRS adjustments, IFRS may cause volatility in future income tax liabilities and net income.

The Company is working to understand the practical application of those IFRS principles considered to impact the Company, in order to quantify the IFRS opening balance sheet adjustments as at January 1, 2010.

Control Environment (Ongoing to 2011 year end reporting)

As the transition to IFRS progresses, changes to the design and implementation of both internal controls over financial reporting and disclosure controls are being made. Additional disclosure controls relating to first-time adoption of IFRS are currently being implemented. The design changes for internal controls over financial reporting will be completed and evaluated by the first quarter of 2011 with operating effectiveness to be evaluated prior to 2011 year-end reporting.

Training and Communication (Ongoing to first quarter 2011 reporting)

Training of those accounting personnel impacted by the transition to IFRS is in process. The Audit Committee receives quarterly updates on project status. More frequent IFRS sessions are held among management to discuss the potential impacts of implementing IFRS.

IT Systems (Ongoing to 2011 year end reporting)

The Company is currently developing and implementing system modifications to support the capture and reporting of IFRS financial information during 2010. Complete systems required to support IFRS reporting are expected to be in place by the first quarter of 2011.

Business Activities (Ongoing to 2011 year end reporting)

Work has commenced to implement changes to the budgeting and forecasting systems to embed the more significant aspects of IFRS within the Company's planning cycle.

Outlook

ShaMaran's operational activities for the remainder of 2010 will focus on processing and interpreting seismic data in Pulkhana, Arbat and Block K42, drilling the first exploration well on the Atrush Block which was spudded in October 2010 and on commencing in the first quarter of 2011 the drilling of an exploration/appraisal well located in the Pulkhana Block. The outlook for the four blocks in Kurdistan is as follows:

Pulkhana block

Processing of 291.4 km of 2D seismic is ongoing. The data will also be used to identify the resource potential in the Block.

The Company plans to commence the drilling of its first well in the Pulkhana block in the first quarter of 2011. The well location has been selected and site preparation is underway to enable the Company to achieve this target.

Arbat Block

Processing of the 429.1 km of 2D seismic data is currently underway and should be completed by the end of 2010. The data will be used to identify the resource potential in the Block and location of the future exploration wells. The first exploration well on the Arbat Block is planned for the fourth quarter of 2011.

Block K42

Processing of the 232.0 km acquired 2D seismic data is complete. The Company will decide based on its interpretation of the results of the seismic data on whether to exercise its option to enter into a Production Sharing Contract. A decision on the exercise of the option could be taken by the end of the first quarter of 2011.

Atrush

The Atrush 1 exploration well was spudded on October 5, 2010 and will be drilled to a planned depth of 3,100 meters. The Company expects drilling to be complete early in the first quarter of 2011.

New Ventures

The Company is currently pursuing new opportunities in the region.

Budget

The capital and operating budget for the year 2010 previously approved by the Board of Directors was for $53.5 million. The budget contains amounts relating to the work programs and administration of the three Kurdistan petroleum properties as follows: $39.5 million for the Pulkhana Block, $11.3 million for the Arbat Block, and $2.8 million (representing 25% of the total) for Block K42. At the end of the third quarter of 2010, the actual expenditures of the Group were within budget.

General

The security situation in Kurdistan remains stable with no major reported incidents. The region is seeing a rapid development in infrastructure and a significant increase in the availability of oil and gas services in the country. Management is, based on current reports, optimistic that the regional government of Kurdistan and the federal government of Iraq will come to an agreement on a possible payment mechanism for oil revenues arising from the sale of oil produced from Kurdistan before the Company starts producing and exporting oil. This would be an extremely positive development for the region.

Forward-Looking Statements

This report contains forward-looking statements concerning anticipated developments on the Company's operations; the adequacy of the Company's financial resources; financial projections, including, but not limited to, estimates of capital and operating costs, production rates, commodity prices, exchange rates, net present values; and other events and conditions that may occur in the future. Forward-looking statements are frequently, but not always, identified by the words such as "expects," "anticipates," "believes," "intends," "estimates," "potential," "possible," "budget" and similar expressions, or statements that events, conditions or results "will," "may," "could," or "should" occur or be achieved. Information concerning the interpretation of drill results and reserve estimates also may be deemed to be forward-looking statements, as such information constitutes a prediction of what might be found to be present if and when a project is actually developed. Forward-looking statements are statements about the future and are inherently uncertain, and actual achievements of the Company or other future events or conditions may differ materially from those reflected in the forward-looking statements due to a variety of risks, uncertainties and other factors, including, without limitation, those described in this MD&A.

The Company's forward-looking statements are based on the beliefs, expectations and opinions of management on the date the statements are made and the Company assumes no obligation to update such forward-looking statements in the future. For the reasons set forth above, investors should not place undue reliance on forward-looking statements.

Additional Information

Additional information related to the Company is available on SEDAR at **www.sedar.com** and on the Company's web-site at **www.shamaranpetroleum.com**.