SHAMARAN PETROLEUM CORP.

MANAGEMENT DISCUSSION AND ANALYSIS
For the years ended December 31, 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. ("ShaMaran", and formerly Bayou Bend Petroleum Ltd, together with its subsidiaries the "Company") is prepared as of April 7, 2011. The MD&A should be read in conjunction with the audited consolidated financial statements for the years ended December 31, 2010 and 2009, and related notes thereto. 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 four petroleum properties located in Kurdistan in Northern Iraq ("Kurdistan"). The Company is currently in the pre-production stages of its exploration and development program relating the petroleum properties. ShaMaran trades on the TSX Venture Exchange under the symbol "SNM".

Highlights

- In April 2010 the Company completed the acquisition of 291.4 km of 2D seismic data in the Pulkhana Block. The seismic campaign was completed on schedule and within budget.
- Seismic acquisition of 232 km of 2D seismic data in Block K42 was concluded in May 2010. Processing and interpretation of the data was completed at the end of the year 2010 and resulted in the identification of a significant 4-way dip-closed prospect.
- In August 2010, the Company 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. As a result ShaMaran has a 26.8% indirect interest in the Atrush Block.
- In August 2010, the Company 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 Company's profit oil share (produced oil, less royalty and cost oil) from the two PSCs as capacity building payments to the KRG.
- The Company raised $47.8 million net cash proceeds through a private placement of 111 million common shares in September 2010.
- In October 2010, the Company completed the acquisition of 429.1 km of two dimensional ("2D") seismic data on the Arbat Block in eastern Kurdistan.
- The first exploration well on the Atrush Block was spudded on October 5, 2010, and a total depth of 3,400 meters was reached on January 21, 2011. A comprehensive well testing program was commenced on January 30, 2011 with drill stem tests planned for ten (10) potential hydrocarbon zones. The Company will make a further announcement at the conclusion of all testing expected to be in the second week of April 2011.
- In March 2011 the Company received a Detailed Property Report ("the Report") from its third party auditors, McDaniel & Associates Consultants Ltd. The Report includes 82,461 Mboe as best estimate of *Gross Estimated Contingent Resources* and 287,555 Mboe as the unrisked best estimate of *Gross Estimated Prospective Resources* net to ShaMaran for all four of the Company's assets. These estimates are based on information prior to the appraisal drilling of Pulkhana and results from the Atrush-1 well.
- On April 3, 2011 the Company spudded its first well, Pulkhana 9, with a planned total depth of approximately 2,700 meters and targets the proven Euphrates/Upper Jaddala and Shiranish oil reservoirs, as well as evaluating a further potential reservoir in the Lower Jaddala.

- Cash balance of the Company was $58.7 million as at December 31, 2010.

Operations in Kurdistan

The Company 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 area located in southern Kurdistan. In 1956 the Pulkhana 5 discovery well entered two fractured carbonate reservoirs and successfully flow tested to surface a cumulative rate of over 2,900 barrels of oil per day.

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. The seismic program was successful in delineating the structure of the Pulkhana oilfield.

On April 3, 2011 the Company spudded its first well, Pulkhana 9, which will be drilled approximately 2.8 km northwest of Pulkhana 5. 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 with an automatic right to a five year extension.

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 area located in eastern Kurdistan. 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 was completed in December 2010, and the Company has received Ministry of Natural Resources ("MNR") approval for the location of the first commitment exploration well (designated Arbat-A). Tendering and preparations are now underway to enable drilling scheduled to commence in the 4th quarter of this year.

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 a 505 square km exploration area located in the South of Kurdistan immediately northeast of the Pulkhana Block, and is on trend with the Jambur field situated to the north west of the Block. The producing Jambur field has estimated oil reserves in excess of one billion barrels and is connected to export infrastructure.

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 was completed in December 2010. The seismic program resulted in the identification of a significant 4-way dip-closed prospect.

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

The Atrush Block is a 269 square km exploration area in the north of Kurdistan located immediately north and adjacent to the major Shaikan discovery announced by Gulf Keystone Petroleum Ltd. in January 2010. 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 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 and tested individually at flow rates up to 7,000 bopd.

In August 2010 the Company 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 1 exploration well was spudded on October 5, 2010 and completed drilling to a total depth of 3,400 meters on January 21, 2011. Hydrocarbons shows with oil returns over shakers were recorded while drilling the Cretaceous and the Jurassic, and the RFT pressures taken in the 12-1/4” hole section appear to show a common oil gradient within three of the Jurassic intervals. A comprehensive well testing program was commenced on January 30, 2011 with Drill Stem Tests planned for ten (10) potential hydrocarbon zones. The Company will make a further announcement at the conclusion of all testing, expected to be in the second week of April 2011.

Under the terms of PSC, the KRG has the option of participating as a Contractor Entity with an undivided interest in the petroleum operations and all the other rights, duties, obligations and liabilities of the Contractor in the PSC, of up to 25% and not less than 5%. 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.

Changes in Directors and Officers

In April 2010, Mr. Pradeep Kabra, President and Chief Executive Officer, was appointed as a director of the Company. In the same month John Ashbridge resigned from his position as Chief Operating Officer.

Selected Annual Information

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

($000s, except per share data)	For the year ended December 31,		
	2010	2009	2008
Continuing operations			
Depreciation	(139)	(6)	(469)
General and administrative	(594)	(2’378)	-
Stock based compensation	(514)	(546)	(801)
Guarantee fees	(1’353)	(636)	-
Interest income	416	310	986
Loss from investment in company	(27)	-	-
Foreign exchange gain / (loss)	2’215	4’943	(5’010)
Income tax	(81)	(12)	-
Net income / (loss) from continuing operations	(77)	1’675	(5’294)
Discontinued operations			
Net revenues	-	1’658	5’009
Expenses	(1’044)	(2’041)	(98’835)
Interest income	7	24	1’070
Gain loss on sale of assets	77	1’600	-
Net income / (loss) from discontinued operations	(960)	1’241	(92’756)
Net income/(loss)	(1’037)	2’916	(98’050)
Basic income / (loss), $ per share:			
Continuing operations	-	0.005	(0.02)
Discontinued operations	-	0.005	(0.30)
	-	0.01	(0.32)
Diluted income / (loss), $ per share:			
Continuing operations	-	0.005	(0.02)
Discontinued operations	-	0.005	(0.30)
	-	0.01	(0.32)
Total assets	256’489	249’999	63’594
Working capital surplus	41’364	59’903	41’595
Shareholders’ equity	235’518	244’563	54’466
Common shares outstanding (x 1000)	623’182	499'546	308'756

Summary of principal changes in annual information

The Company spent $26,900 on property plant and equipment carrying out the first full year of operations in Kurdistan in 2010, consisting primarily of the acquisition of seismic data on 3 blocks and site preparation and purchase of tangible well equipment for the Pulkhana 9 appraisal well to be drilled in the year 2011. As a result of executing agreements with the KRG in August 2010 to amend the Pulkhana and Arbat Block PSCs the obligation to issue 150 million shares of the Company to the KRG was waived in lieu a contribution of 20% of the Company's profit oil share resulting in a reduction to equity and assets by $61,349, which is the value of shares due to be issued prior to the amendment. In the same month the Company acquired a 33.5% interest in GEP worth $45.1 million in exchange for cash consideration of $24.3 million, 12.5 million shares of the Company valued at $5 million and an obligation to fund in full the subsequent $15.8 million of operational costs of GEP. To finance the acquisition the Company raised funds in September 2010 through the issuance of 111 million shares at Cdn $0.45 per share, resulting in gross proceeds of Cdn $50 (Cdn $49,301 net of issuance costs). As a result of these developments the total assets, common shares outstanding, and shareholders' equity reported at the end of the year 2010 has increased relative to the amount in 2009. The income and expenses of the Company are explained in detail below.

Results of Continuing Operations

The continuing operations of the Company are currently in the exploration stages and generate no revenue. The expenses and other income are explained as follows:

Depletion, Depreciation and Amortization

In $000	**For the year ended December 31, 2010**	**2009**
Depletion, depreciation and amortization	139	6

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

In $000	**For the year ended December 31, 2010**	**2009**
Salaries and benefits	2,526	279
Management and consulting fees	1,053	494
Sponsorship expense	485	523
General and other office expenses	416	63
Listing costs and investor relations	414	136
Travel expenses	327	649
Legal, accounting and audit fees	196	660
Expenses capitalized as oil and gas assets	(4,823)	(426)
Total general and administrative expenses	594	2,378

The general increase over the prior year in the components of G&A expenses is due to the increase in support activity associated with a full year of operations in Kurdistan relative to approximately four months of activity only in the year 2009. However, the reduction in total G&A costs vs. the comparative amount in 2009 is owing to a significant increase in the amount of expense capitalized as oil and gas assets in the year 2010 compared to the amount capitalized in the year 2009, again corresponding to the increased level of operational activity in Kurdistan.

Stock-Based Compensation

In $000	For the year ended December 31, 2010	2009
Stock-based compensation	514	546

The stock-based compensation expense in the years 2010 and 2009 results from the vesting of stock options granted in the years from 2007 to 2010. A total of 1,390,000 stock options were granted during the year ended December 31, 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

In $000	For the year ended December 31, 2010	2009
Foreign exchange gain	2,215	4,943

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

In $000	For the year ended December 31, 2010	2009
Guarantee fees	1,353	636

The Company has incurred fees in respect of a guarantee of the minimum financial obligations under the Pulkhana and Arbat PSCs. The guarantee became effective on August 29, 2009 and has been provided to the KRG by a related company on behalf of ShaMaran. Refer also to the discussion under “Related Party Transactions” in this MD&A.

Interest income

In $000	For the year ended December 31, 2010	2009
Interest income	416	310

Interest income represents bank interest earned on cash and investments in marketable securities. The increase in the amount relative to the prior year is primarily due to higher interest rates on average throughout the year 2010.

Loss from investment in Company

In $000	For the year ended December 31, 2010	2009
Loss from investment in GEP	27	-

The loss relates to the Company’s pro-rata portion of the net loss incurred by GEP since the Company acquired its 33.5% interest on August 27, 2010.

Tax expense

In $000	**For the year ended December 31, 2010**	**2009**
Tax expense	81	12

Income tax expense in 2010 relates to a provision for income tax on service income generated in the Swiss entity of the Company, which was created in the fourth quarter of 2009. The amount reported in 2010 has increased relative to 2009 as a result of a higher tax base corresponding to the first full year of services.

Results of Discontinued Operations

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

Net revenues

In $000	**For the year ended December 31, 2010**	**2009**
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

In $000	**For the year ended December 31, 2010**	**2009**
Asset retirement obligation	340	-
Management and consulting fees	308	455
Legal, accounting and audit fees	246	385
General and other office expenses	150	1,072
Operating, exploration and dry-hole costs	-	1,592
Salaries and benefits	-	1,160
Depletion, depreciation and amortization	-	447
Impairment	-	200
Accretion	-	12
Foreign exchange gain	-	(3,282)
Total expenses	1,044	2,041

The decrease in total expenses relative to the prior year corresponds to the reduction in activity associated with the Company's United States based operations, which follows from the sale in 2009 of substantially all of the properties located there. The $340 asset retirement obligation ("ARO") expense in 2010 is due to an increase in the provision for ARO reported at the year ended December 31, 2009, and is based on the Company's portion of a program approved during the year 2010 to decommission and remediate the relevant property.

Interest income

In $000	**For the year ended December 31, 2010**	**2009**
Interest income	7	24

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

Gain on disposal of assets from discontinued operations

In $000	**For the year ended December 31,**	
	2010	**2009**
Gain on asset disposal	77	1,600

The Company had a gain of $77 in the year 2010 relating to the disposal of all remaining inventories located in the United States. In the year 2009 the Company realized a gain of $1,600 on the disposal of substantially all oil and gas properties located in the United States.

Selected Quarterly Information

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

($000s, except per share data)	**For the Quarter Ended**							
	Dec 31 2010	**Sep 30 2010**	**Jun 30 2010**	**Mar 31 2010**	**Dec 31 2009**	**Sep 30 2009**	**Jun 30 2009**	**Mar 31 2009**
Continuing operations								
Depreciation	(43)	(41)	(29)	(26)	(6)	-	-	-
General and administrative	628	(643)	(360)	(219)	(556)	(642)	(595)	(595)
Stock based compensation	(126)	(70)	(114)	(204)	(99)	(366)	(81)	-
Guarantee fees	9	(456)	(448)	(458)	(636)	-	-	-
Interest income	177	99	74	66	76	62	52	129
Income / (loss) on investment in comp.	46	(73)	-	-	-	-	-	-
Foreign exchange gain / (loss)	1'784	501	(1'764)	1'694	32	4'143	2'214	(1'446)
Income tax	(38)	(16)	(14)	(13)	(12)	-	-	-
Net inc. / (loss) from continuing ops.	2'437	(699)	(2'655)	840	(1'201)	3'197	1'590	(1'912)
Discontinued operations								
Net revenues	-	-	-	-	-	-	943	715
Expenses	(77)	(48)	(729)	(190)	1'459	119	(748)	(2'861)
Interest income	4	-	1	2	3	12	-	-
Gain loss on sale of assets	-	-	-	77	(4)	(173)	1'777	-
Net inc. / (loss) from discontinued ops.	(73)	(48)	(728)	(111)	1'458	(42)	1'972	(2'146)
Net income / (loss)	2'364	(747)	(3'383)	729	257	3'155	3'562	(4'058)
Basic income / (loss), $ per share:								
Continuing operations	-	-	(0.01)	-	-	0.01	0.01	(0.01)
Discontinued operations	-	-	-	-	-	-	0.01	(0.01)
	-	-	(0.01)	-	-	0.01	0.02	(0.02)
Diluted income / (loss), $ per share:								
Continuing operations	-	-	(0.01)	-	-	0.01	0.01	(0.01)
Discontinued operations	-	-	-	-	-	-	0.01	(0.01)
	-	-	(0.01)	-	-	0.01	0.02	(0.02)

Summary of principal changes in fourth quarter information

In the fourth quarter of 2010, the Company continued its exploration campaign in respect of its petroleum properties in Kurdistan, constituting the continuing operations of the Company which currently have no corresponding revenue. The net income in the fourth quarter was primarily driven by the cumulative foreign currency translation gain of $1,784 and the reclassification to general and administrative expenses of a credit in the amount of $816 relating to capitalized expenses, which was previously recorded as a long term liability.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Outstanding Share Data

As of December 31, 2010, the Company had 623,182,194 shares outstanding, 4,560,000 stock options outstanding under its stock-based compensation plan, and zero warrants outstanding.

In August 2010, the Company executed agreements with the KRG to amend the Pulkhana Block 10 and the Arbat Block PSCs. The amendments relieve the Company of its previous contractual requirement to issue 150 million common shares of the Company to the KRG requiring the Company 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 December 31, 2010, the amount previously recognized as shares to be issued of $61,349 was reversed with a corresponding decrease to the cost of the Company'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 $185 during the year 2010 (2009: $214). Namdo is a private corporation owned by a shareholder of the Company. There was no amount owing to this related party at December 31, 2010 (2009: Nil).

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 $152 during year ended December 31, 2010 (2009: $385). There was $12 owing to this related party at December 31, 2010 (2009: $385).

During the year ended December 31, 2010, the Company incurred legal fees of $41 (2009: $217) with a law firm in which an officer of the Company is a partner. There was no amount owing to this related party at December 31, 2010 (2009: Nil).

The Company receives services from various subsidiary companies of Lundin Petroleum AB ("Lundin"), a shareholder of the Company. Lundin charges for the year ended December 31, 2010 were $2,673 (2009: $1,245). The charges were comprised of G&G and other technical service costs of $382 (2009: $317), reimbursement for Company travel and related expenses of $601 (2009: $207), office rental, administrative and building services of $328 (2009: $86), and charges of $1,362 (2009: $635) 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 through to June 30, 2010, thereafter charged at 1.5% per annum, and payable semi-annually. The amount owing to Lundin at December 31, 2010 was $214 (2009: $767).

Total amounts owing to related parties as at December 31, 2010 was $226 (2009: $1,152). 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 December 31, 2010 totaled $41,364, compared to $59,903 at December 31, 2009.

Funds used in continuing operations in 2010 were $4,796, while there was a net inflow in funds of $8,946 from continuing operations in the previous year. The primary components of the movement in funds are discussed in the following paragraphs.

The Company has an inflow of funds of $47,826 from financing activities in continuing operations during the year ended December 31, 2010, compared to a net inflow of funds of $96,598 in 2009. The substantial portion of the inflow of funds in the year 2010 came from the issuance in September of 111,111,106 common shares at CAD $0.45 per share less brokerage fees and other issuance costs.

Net cash used in investing activities in continuing operations was $53,566 compared to funds used in 2009 in the amount of $91,230. During 2010, the main components of cash used by investing activities in continuing operations were in funding the investment in GEP in the amount of $26,666, and $26,900 used to fund exploration costs associated with the seismic acquisition and drilling programs of the Company's petroleum properties in Kurdistan.

Net cash used in discontinued operations was $85 for year ended December 31, 2010 and net inflow of cash in discontinued operations was $9,337 for the year ended December 31, 2009. The primary use of funds in 2010 was in payments made towards settling outstanding accounts and for professional and consulting fees relating to the close-out of operations in the United States, while the Company received funds in respect of the sale of all remaining inventories in the United States and in respect of an insurance claim for hurricane damages associated with the Company's discontinued operations.

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 its commitments under 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 $507 in the year ended December 31, 2010 (2009: $336) due to stock-based compensation expensed and exercised during the year. 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 25,000 options exercised during 2010 (2009: 790,000).

Commitments

Production Sharing Contracts

The Company 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 Company to fund certain personnel, training, environmental, and technological assistance projects, during the period over which the contracts are in effect. As at December 31, 2010, the Company 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 that it has concluded its remaining minimum commitments under the K42 Option Agreement at December 31, 2010.

Investment in GEP

As part of the acquisition of GEP, the Company agreed obligation to contribute the next $15.8 million in cash which will be required to fund GEP's oil exploration and development operations. The amount of this obligation which remained at the end of the year 2010 was $12.6 million.

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 from 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 inflows from 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 McDaniel & Associates Consultants Ltd ("McDaniel"), an independent geoscience consultancy firm, to evaluate 100% of the Company's reserves and resource data at December 31, 2010. The conclusions of this evaluation have been presented in a Detailed Property Report, which has been prepared in accordance with standards set out in the Canadian National Instrument NI 51-101 and Canadian Oil and Gas Evaluation Handbook (COGEH). Prior to the appraisal drilling of Pulkhana and Total Depth of the Atrush-1 well McDaniel estimate the following Contingent & Prospective Resources net to ShaMaran for all four of the Company's assets:

COMPANY GROSS ESTIMATED CONTINGENT RESOURCES AS OF DECEMBER 31, 2010
MBBL, MMCF (1) (2) (3) (4)

	Low Estimate (1C)	Best Estimate (2C)	High Estimate (3C)	Mean (3) Estimate
Crude Oil (Mbbl)	28,232	81,736	236,232	113,835
Natural Gas (MMcf)	1,254	4,350	14,231	6,574
Total Company (Mboe)	28,441	82,461	238,604	114,931

(1) There is no certainty that it will be commercially viable to produce any portion of the resources.
(2) Company Gross resources are based on working interest share of the property gross resources.
(3) The statistical mean is provided in addition to the standard 1C, 2C and 3C resource categories
(4) Based on arithmetic aggregation of the low (P90) and high (P10) estimates for the individual fields; statistically therefore the low (1C) estimate presented above has a greater than 90 percent chance of being exceeded and the high (3C) estimate has a lower than 10 percent chance of being exceeded.

The Company's crude oil, condensate and natural gas prospective resources as of December 31, 2010 were estimated to be as follows:

COMPANY GROSS ESTIMATED PROSPECTIVE RESOURCES AS OF DECEMBER 31, 2010
MBBL, MMCF (1) (2) (3) (4)

	Unrisked Low Estimate	Unrisked Best Estimate	Unrisked Mean Estimate	Unrisked High Estimate	Risked (2) Mean Estimate
Crude Oil (Mbbl)	121,719	196,585	217,600	338,311	103,549
Natural Gas (MMcf)	243,095	508,430	600,219	1,066,892	141,185
Condensate (Mbbl)	2,598	6,232	7,800	14,953	2,265
Total Company (Mboe)	164,833	287,555	325,436	531,099	129,345

(1) There is no certainty that any portion of the resources will be discovered. If discovered, there is no certainty that it will be economically viable or technically feasible to produce any portion of the resources.
(2) These are partially risked prospective resources that have been risked for chance of discovery, but have not been risked for chance of development.
(3) Based on arithmetic aggregation of the low (P90) and high (P10) estimates for the individual prospects; statistically therefore the low estimate presented above has a greater than 90 percent chance of being exceeded and the high estimate has a lower than 10 percent chance of being exceeded.
(4) Company Gross resources are based on working interest share of the property gross resources.

The estimation of reserves and resources 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. The Company had no reserves at December 31, 2010.

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 is in the process of transitioning 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 asset retirement obligations 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 have completed and are in process of being evaluated, 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 and will be ongoing. 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 has concluded all system modifications necessary to support the capture and reporting of IFRS financial information during.

Business Activities (Ongoing to 2011 year end reporting)

All changes to the budgeting and forecasting systems to embed the more significant aspects of IFRS within the Company's planning cycle are now in place.

Outlook

The outlook for the four blocks in Kurdistan for the year 2011 is as follows:

Pulkhana block

Pulkhana-9 was spudded on April 3, 2011 and is planned to be drilled to a Total Depth of 2700m which is estimated to take approximately 90 days. The well is designed to appraise the proven Euphrates/Jaddala & Shiranish oil reservoirs as well as appraise possible upside in the Jeribe & Lower Jaddala formations.

ShaMaran has also received Ministry of Natural Resources ("MNR") approval for the Pulkhana-10 and preparations are being made to enable drilling of this well. The Company is tendering for a workover rig for the planned third quarter workover of Pulkhana-8 and at the same time progressing with the feasibility study and design for the Pulkhana Early Production Facility ("EPF") planned to be installed by the end of the year 2011. The first 3 wells (Pulkhana 8, 9 & 10) will be connected to the EPF, with the possibility to expand as future development wells are drilled.

Arbat Block

Following completion of seismic interpretation the Company has received MNR approval for the location of the first commitment exploration well (designated Arbat-A). Tendering and preparations are underway to enable drilling to commence in the 4th quarter of this year.

Atrush

Atrush 1 was drilled to a total depth of 3,400 meters on January 21, 2011. The comprehensive well testing program commenced on January 30, 2011 is expected to be concluded in the second week of April 2011. Evaluation of the results of the testing program will be a significant factor towards determining the future program for the Atrush Block.

Block K42

Processing of the 232.0 km acquired 2D seismic data is complete. The Company plans to exercise its option later in the year 2011 to enter into a Production Sharing Contract.

New Ventures

The Company is currently pursuing new opportunities in the region.

Budget

The capital and operating budget approved by the Board of Directors for the year 2011 was for $122.9 million. The budget contains amounts relating to the work programs of the four Kurdistan petroleum properties as follows: $49.5 million for the Pulkhana Block, $16.5 million for the Atrush Block, $30.7 million for the Arbat Block, $21.6 million for Block K42, and $4.6 million in corporate costs. The Company currently has sufficient funds to meet its existing contractual commitments under the approved budget and plans to seek additional funding to finance the remainder of the capital and operating 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**.