SHAMARAN PETROLEUM CORP.

MANAGEMENT DISCUSSION AND ANALYSIS
For the three and nine months ended September 30, 2012
(Expressed in thousands of United States Dollars unless otherwise indicated)

Management's discussion and analysis ("MD&A") of the financial and operating results of ShaMaran Petroleum Corp. ("ShaMaran" together with its subsidiaries the "Company") is prepared as of November 20, 2012. The MD&A should be read in conjunction with the unaudited condensed interim consolidated financial statements for the three and nine months ended September 30, 2012 together with the accompanying notes. The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. Unless otherwise stated herein all monetary amounts are expressed in thousands of US dollars ("USD").

Overview

ShaMaran is a Canadian-based oil and gas company with an indirect interest in the Atrush petroleum property located in Kurdistan in Northern Iraq ("Kurdistan"). The Company is currently in the pre-production stages of its appraisal and development program relating to the Atrush oil discovery on this petroleum property. ShaMaran trades on the TSX Venture Exchange and the NASDAQ OMX First North Exchange (Stockholm) under the symbol "SNM".

Highlights

- On November 7, 2012 General Exploration Partners Ltd, operator of the Atrush Block and acting on behalf of the Contractor Group under the Atrush Block Production Sharing Contract, submitted to the Atrush Block Management Committee a Declaration of Commercial Discovery with effect from November 7, 2012.
- The Atrush-2 appraisal well was spudded on May 23, 2012 and a total depth of 1,750 meters was reached ahead of schedule on July 10, 2012. Following the conclusion of the comprehensive well testing program the Company announced on September 13, 2012 that the main reservoir in Atrush-2 produced a combined flow rate of more than 42,200 barrels of oil per day ("bopd") and that additional oil resources were confirmed in two additional formations.
- The Atrush 1 discovery well which was drilled last year was completed in November 2012. The well is now ready to be connected to production facilities and put on stream as a future producer.
- Civil works for road access and site preparation for the Atrush-3 appraisal well are nearing completion. The drilling rig used to drill Atrush-2 and complete Atrush-1 will be moved to Atrush-3 which is expected to spud before the end of this year.
- 3D seismic acquisition on the Atrush Block was completed on August 11, 2012. Final processing of the complete 3D seismic survey is expected in the first quarter of 2013.
- The tendering process has been completed for a contract to install and operate extended test facilities ("ETF") on the Atrush Block with a production capacity of up to 5,000 bopd. The ETF is expected to be commissioned in the first quarter of the year 2013 with production coming from the Atrush-1 well.
- The Company announced on August 20, 2012 that it sold its entire 20% undivided participating interest in the Taza production sharing contract ("PSC") to a subsidiary of Total S.A. for a USD 48 million purchase price plus a reimbursement of costs incurred on joint operations from April 1, 2012 until the closing date.
- The Company signed final binding agreements with the KRG in January 2012 to relinquish the 60% working interests previously held in each of the Arbat and Pulkhana PSCs. An amount of $25 million was paid in January 2012 to the KRG as relinquishment fees to fulfill all outstanding financial commitments on these two blocks. The agreements relieve the Company of any further obligations under these PSCs. Disappointing testing results from the Pulkhana 9 well led the Company to this decision.

- The Company has re-engaged McDaniel & Associates Consultants Ltd (“McDaniels”), its independent qualified resources evaluator, to provide the Company with a Detailed Property Report (“DPR”) which will include the results of an evaluation of the reserves and resources data of the Company as at December 31, 2012.
- In August 2012 the Company repaid in full the short term loan of $10 million which had been obtained in April 2012 from two related parties.
- At September 30, 2012 the Company had a cash balance of $43.3 million and working capital of $41.1 million.

Operations in Kurdistan

The Company had at September 30, 2012 an indirect interest in the Atrush Block petroleum property which is located in Kurdistan in the northern extension of the Zagros Folded Belt adjacent to several major oil discoveries. The area is currently undergoing a major exploration and development campaign by internationally recognised mid to large sized oil companies.

In the nine months ended September 30, 2012 the Company completed a strategic realignment of its asset portfolio and significant progress was made on the appraisal and development program in the Atrush Block. A Declaration of Commercial Discovery was submitted to the Atrush Block Management Committee on November 7, 2012.

In January 2012 ShaMaran signed a final binding agreement to relinquish to the KRG the 60% working interests which it then held in each of the Arbat and Pulkhana PSC. Under the terms of the agreement the PSC for each of the Pulkhana and Arbat blocks was terminated whereby ShaMaran's interests in both PSCs are relinquished and the Company has been relieved of any further obligations under these PSCs. The Company announced on August 20, 2012 that it had sold its entire 20% participating interest in the Taza Block to a subsidiary of Total S.A. At this time the Taza-1 exploration well had been drilled to a depth of approximately 1,650m, which was above the target reservoirs. This asset realignment has relieved the Company from the remaining work program obligations of the Pulkhana, Arbat and Taza Blocks, provided ShaMaran with a solid financial position and cash resources, and enables the Company to focus its activities and resources on the appraisal and development program now in progress on the Atrush Block.

The Atrush-2 appraisal well was drilled to total depth from May 2012 to July 2012 followed by a comprehensive well testing program. On September 13, 2012 the Company announced the results of the testing program indicating that the main reservoir produced a total flow rate of more than 42,200 barrels of oil per day ("bopd") and that additional oil resources were confirmed in two additional formations. After the conclusion of operations on Atrush-2 the drilling rig was moved to the Atrush-1 discovery well which has now been completed for production. Civil engineering work to provide road access and the drilling location for the Atrush-3 appraisal well has been progressed to an advanced stage, and the tendering process has been completed for a contract to install and operate a 5,000 bopd extended test facility.

Atrush Block

The Atrush Block is located approximately 85 km northwest of Erbil, the capital of the Kurdish administered part of Iraq, and is 269 square kilometers in area. The topography is similar to the Shaikan Block to the south which had a major discovery reported by Gulf Keystone Petroleum Ltd in January 2010. Immediately to the north of the Atrush Block is the Sarsang block where Hillwood International Energy also made an oil discovery in the Swara Tika-1 well. The structures located on the block contain multiple stacked oil reservoirs in the Cretaceous, Jurassic and Triassic sections and due to a high-degree of fracturing have demonstrated very high production rates. In addition to the proven Atrush Jurassic oil discovery the Atrush Block has additional exploration upside in the shallower Cretaceous reservoirs, a northern extension of the Atrush oil accumulation at the Jurassic level into the Swara Tika structure, and the deeper Triassic Kurra Chine “C”.

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, with the remaining 20% third party interest (“TPI”) being held by the KRG. In October 2010 Marathon Oil Corporation (“Marathon”) was assigned the 20% TPI in the PSC.

Under the terms of the 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.

GEP acquired 143 km of 2D seismic data over the Atrush Block in 2008. The first exploration well 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 consisting of ten drill stem tests ("DSTs") commenced on January 30, 2011 and was completed on April 3, 2011. Following notification to the KRG of a major Jurassic oil discovery on April 4, 2011 GEP submitted an Appraisal Work Program consisting of 3D seismic, appraisal wells and studies and a possible installation of an extended test facility to conduct production testing in the field.

3D seismic acquisition operations commenced on the block in July 2011 and were completed on August 11, 2012 with 3D seismic data now covering the entire Atrush block. Final processing of the complete 3D seismic survey is expected in the first quarter of 2013.

The Atrush-2 appraisal well was spudded on May 23, 2012 and drilled to a planned total depth of 1,750m in the Butmah formation ahead of schedule on July 10, 2012. The Company announced on September 13, 2012 the results of the comprehensive Atrush-2 well testing program which confirmed through three separate DSTs the Atrush-1 Jurassic oil discovery in the Barsarin-Sareglu-Alan-Mus ("BSAM") reservoir. The combined test rate for the three BSAM DSTs, constrained by surface testing equipment, was over 42,200 bopd (approximately 27 degree API) and confirms the significant potential for production from the highly fractured BSAM reservoir. An additional two DSTs conducted on the Jurassic Adaiyah (cased hole) and Butmah (open hole) formations confirmed them to be oil bearing. GEP submitted in October 2012 to the Ministry of Natural Resources of Kurdistan a Atrush-2 Discovery Report giving notice of the additional Discovery.

In September 2012 the drilling rig was moved from the Atrush-2 well to the Atrush-1 well discovery well drilled last year. The well was completed in November 2012 and is now ready to be connected to production facilities and put on stream as a future producer.

In September 2012 McDaniel & Associates Consultants Ltd were re-engaged to evaluate the reserves and resources data of the Company at December 31, 2012 and to present its conclusions in a Detailed Property Report.

Work is now in progress to move the drilling rig to the Atrush-3 drilling location. Construction work is nearing completion which will provide road access to the Atrush-3 appraisal well location which is approximately 5km east of the Atrush-2 well. Atrush-3 is expected to spud before the end of the current year.

The tendering process has been completed for a contract to install and operate extended test facility ("ETF") with a maximum production capacity of 5,000 bopd. The ETF is expected to be commissioned in the first quarter of 2013 with production coming from the Atrush-1 well. The Atrush-2 well will be used to monitor reservoirs.

On November 7, 2012 GEP and Marathon, collectively being the Contractor under the Atrush Block PSC, submitted to the Atrush Block Management Committee a Declaration of Commercial Discovery ("DCD") with effect from November 7, 2012 under Clause 12.6 (a) of the PSC. The DCD was submitted together with an Appraisal Report covering the Atrush field. The Contractor is currently in the process of preparing a Field Development Plan which will be submitted to the Atrush Block Management Committee within 180 days following the DCD.

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

Taza Block

On August 20, 2012 the Company announced that it had sold to a subsidiary of Total S.A its 20% interest in the Taza Block PSC.

The Taza Block is a 511 square kilometer exploration area located in the south of Kurdistan immediately northeast of the Pulkhana Block.

Prior to the sale of its interest in Taza the Company held a 20% undivided interest in the production sharing contract. Oil Search Iraq Limited ("OSIL"), the operator, held a 60% working interest in the PSC and the KRG held a 20% working interest in the PSC with costs carried by ShaMaran and OSIL. The Company had previously been a party to an option agreement in respect of the Taza Block with the KRG and OSIL. ShaMaran and OSIL exercised their option to convert that agreement into the PSC.

The Taza-1 exploration well was spudded on July 3, 2012 and by August 20, 2012, the date the Company announced the sale of its interest in Taza, the well was drilled to a depth of depth of approximately 1,650m which was above the reservoir targets.

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

Pulkhana Block

Operations were discontinued in the Pulkhana block after disappointing test results from the Pulkhana 9 well. The Pulkhana Block PSC was fully relinquished to the KRG with an effective date of January 17, 2012.

The Pulkhana Block is a 529 square kilometer appraisal/development area located in southern Kurdistan.

Prior to relinquishing this PSC the Company was 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. retained a 20% interest in the PSC and the KRG held the remaining 20%.

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

Arbat Block

On January 17, 2012 the Company completed the relinquishment to the KRG of the Arbat Block PSC.

The Arbat Block is a 973 square kilometer exploration area located in eastern Kurdistan.

Prior to relinquishing this PSC the Company was the operator of the project and held a 60% undivided interest in the PSC with the KRG holding a 20% interest and the remaining 20% a third party interest which the KRG has the option to assign to a third party or parties.

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:

(In $000s, except per share data)	For the quarter ended							
	Sep 30 2012	Jun 30 2012	Mar 31 2012	Dec 31 2011	Sep 30 2011	Jun 30 2011	Mar 31 2011	Dec 31 2010
Continuing operations								
General and admin. (expense) / rec.	(512)	(459)	(384)	(283)	202	(837)	(164)	628
Share based payments (expense) / rec.	(2)	(8)	2	(21)	(70)	(114)	(59)	(83)
Depreciation and amortisation	(46)	(48)	(49)	(55)	(58)	(56)	(52)	(43)
Share of (loss) / recovery of associate	(97)	(46)	(66)	11	(173)	(30)	(79)	46
Relinquishment costs	-	-	(25,732)	-	-	-	-	-
Impairment (losses) / recovery	(138)	945	(248)	(207,504)	-	-	-	-
Gain on sale of asset	1,100	-	-	-	-	-	-	-
Finance cost	(393)	(360)	-	(251)	(2,780)	(229)	(227)	9
Finance income	1	25	391	552	147	367	1,162	1,961
Income tax expense	(11)	(28)	(24)	(31)	(32)	(33)	(41)	(38)
Net inc. / (loss) from continuing ops.	(98)	21	(26,110)	(207,582)	(2,764)	(932)	540	2,480
Discontinued operations								
Expenses	(12)	(13)	(37)	(34)	(46)	(1,121)	(78)	(73)
Gain on sale of asset	-	-	-	-	-	1,078	-	-
Net loss from discontinued ops.	(12)	(13)	(37)	(34)	(46)	(43)	(78)	(73)
Net income / (loss)	(110)	8	(26,147)	(207,616)	(2,810)	(975)	462	2,407
Basic loss in $ per share:								
Continuing operations	-	-	(0.03)	(0.28)	-	-	-	-
Discontinued operations	-	-	-	-	-	-	-	-
	-	-	(0.03)	(0.28)	-	-	-	-
Diluted loss in $ per share:								
Continuing operations	-	-	(0.03)	(0.28)	-	-	-	-
Discontinued operations	-	-	-	-	-	-	-	-
	-	-	(0.03)	(0.28)	-	-	-	-

Results of Continuing Operations

The Company's continuing operations are compromised of an exploration and development program on a petroleum property located in the Kurdistan Region of Iraq which is currently in the pre-production stages and generates no revenue. The expenses and income items of continuing operations are explained in detail as follows:

General and Administrative Expenses

In $000	Three months ended September 30, 2012	Three months ended September 30, 2011	Nine months ended September 30, 2012	Nine months ended September 30, 2011
Salaries and benefits	540	785	1,967	2,698
Management and consulting fees	278	309	821	1,001
Sponsorship expense	-	-	-	527
General and other office expenses	133	353	486	844
Listing costs and investor relations	30	84	209	520
Travel expenses	49	81	250	303
Legal, accounting and audit fees	53	17	358	270
General and administrative expense incurred	1,083	1,629	4,091	6,163
Expenses and PSC overhead capitalized as E&E assets	(571)	(1,831)	(2,736)	(5,364)
Net general and administrative expenses / (recovery)	512	(202)	1,355	799

The Company capitalizes as exploration and evaluation (E&E) assets those general and administrative expenses incurred supporting E&E activities which relate to direct interests held in production sharing contracts as well as exploration overhead charges in accordance with PSC terms on properties operated by the Company. The PSCs which govern petroleum properties in Kurdistan allow for the operating company to include within petroleum costs an annual exploration overhead charge calculated on a sliding scale percentage of annual exploration costs. The exploration overhead charge qualifies under the terms of the PSCs as recoverable petroleum costs to be recovered from a portion of available petroleum production. The Company has capitalized no general and administrative expenses subsequent to the sale of its interest in the Taza Block PSC in August 2012 as thereafter it held no direct interests in production sharing contracts.

The decrease in general and administrative expenses incurred and capitalized in the three and nine month periods ended September 30, 2012 relative to the amounts incurred and capitalized over the comparable periods of the prior year is primarily due to the relinquishment in January 2012 of its two operated blocks, Arbat and Pulkhana as well as the sale of Taza Block in August 2012, which resulted in a decrease overall in the Company's technical and support activities during the reporting periods.

Share Based Payments Expense

In $000	Three months ended September 30, 2012	Three months ended September 30, 2011	Nine months ended September 30, 2012	Nine months ended September 30, 2011
Share based payments expense	2	70	8	243

The share based payments expense results from the vesting of stock options granted in the years 2010 and 2011. No stock options have been granted during the first nine months of the year 2012 (year 2011: 25,000 and year 2010: 1,390,000). 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.

Depreciation and Amortisation

In $000	Three months ended September 30, 2012	Three months ended September 30, 2011	Nine months ended September 30, 2012	Nine months ended September 30, 2011
Depreciation and amortisation	46	58	143	166

Depreciation and amortisation corresponds to cost of use of the furniture and IT equipment at the Company's technical and administrative offices located in Switzerland and Kurdistan.

Share of Loss of Associate

In $000	Three months ended September 30, 2012	Three months ended September 30, 2011	Nine months ended September 30, 2012	Nine months ended September 30, 2011
Loss from investment in associate	97	173	209	282

The loss from investment in associate relates to the Company's pro-rata portion of the net loss incurred by GEP in conducting petroleum operations on the Atrush Block in Kurdistan. The Company acquired its 33.5% interest in GEP on August 27, 2010.

Relinquishment Costs

In $000	Three months ended September 30, 2012	Three months ended September 30, 2011	Nine months ended September 30, 2012	Nine months ended September 30, 2011
Relinquishment fees	-	-	25,000	-
Costs to wind up Pulkhana and Arbat operations	-	-	732	-
Total relinquishment costs	-	-	25,732	-

Under the terms of the January 17, 2012 agreements to relinquish the Pulkhana and Arbat Block PSCs the Company paid to the KRG on January 25, 2012 a total of $25 million in fees which relieves the Company of all further obligations under the PSCs, including its remaining minimum financial commitments under the first exploration sub periods which were $50 million in total prior to relinquishing the PSCs. These fees are non-recoverable and have therefore been expensed together with all costs associated with winding up operations on these blocks.

Impairment Losses

In $000	Three months ended September 30, 2012	Three months ended September 30, 2011	Nine months ended September 30, 2012	Nine months ended September 30, 2011
Write down of inventory to net realizable value	132	-	583	-
Recovery of impairment losses on E&E assets	-	-	(1,100)	-
Impairment loss / (recovery) on PP&E	6	-	(42)	-
Impairment loss / (recovery)	138	-	(559)	-

The write down of inventory is primarily due to the liquidation and restocking of certain drilling inventories which will no longer be used in the Pulkhana and Arbat Block drilling programs due to their cancellation. The Company has released excess accrued costs which were capitalized as exploration and evaluation (E&E) assets resulting in a recovery in the current reporting periods of impairment losses previously recognized. The impairment loss / (recovery) on property plant and equipment ("PP&E") items during the reporting periods were due to changes in previous estimates of net realizable value which have occurred in the course of liquidating assets relating to the relinquished blocks.

Gain on Sale of Assets

In $000	Three months ended September 30, 2012	Three months ended September 30, 2011	Nine months ended September 30, 2012	Nine months ended September 30, 2011
Net proceeds on sale of asset	53,266	-	53,266	-
Costs of intangible assets and PP&E sold	(52,166)	-	(52,166)	-
Gain on sale of assets	1,100	-	1,100	-

In August 2012 the Company sold the 20% direct interest which it held in the Taza Block PSC. The net proceeds on sale of asset was comprised of $48 million purchase price proceeds plus a reimbursement of $5.8 million in costs incurred on the Taza block work program since April 1, 2012 less transaction related costs of $0.5 million.

Finance Cost

In $000	Three months ended September 30, 2012	Three months ended September 30, 2011	Nine months ended September 30, 2012	Nine months ended September 30, 2011
Interest expense on equity based financing fee	359	-	719	-
Foreign exchange loss	34	2,572	-	1,320
Guarantee fees	-	207	-	663
Unwinding of discount on decommissioning provision	-	1	-	1
Total finance cost	393	2,780	719	1,984

The interest expense on equity based financing fee relates to a loan entered into with two investment companies who jointly are principal shareholders of the Company. Under the terms of the loan the investment companies received an aggregate of 3,000,000 common shares of the Company issued on April 2, 2012 at $0.24 per share as an equity based financing fee. In the three months ended September 30, 2012 the Company expensed 50% of the total equity based financing incurred representing the pro rata cost over the six month loan term and the entire amount has been expensed in the nine months ended September 30, 2012 which covered the entire loan term.

The foreign exchange losses resulted primarily from holding cash and cash equivalents denominated in Canadian dollars while the Canadian dollar weakened during the reporting periods against the United States dollar which is the reporting currency of the Company.

The Company incurred fees in the first nine months of the year 2011 in respect of a guarantee of the minimum financial obligations under the Pulkhana and Arbat PSCs. The guarantee which was provided to the KRG by a related company on behalf of ShaMaran became effective on August 29, 2009 and was charged at a rate of 3.0 % per annum up to June 30, 2010 and at 1.5% thereafter. As a result of having relinquished the Pulkhana and Arbat Blocks the guarantee is no longer required by the Company resulting in no expense in the first nine months of the year 2012.

Finance Income

In $000	Three months ended September 30, 2012	Three months ended September 30, 2011	Nine months ended September 30, 2012	Nine months ended September 30, 2011
Interest income	1	147	26	424
Foreign exchange gain	-	-	357	-
Total finance income	1	147	383	424

Interest income represents bank interest earned on cash and investments in marketable securities. The decrease in the amounts reported in the first nine months of 2012 relative to the amount reported in the same periods of the year 2011 is primarily due to lower average cash balances held throughout the period.

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

Income Tax Expense

In $000	Three months ended September 30, 2012	Three months ended September 30, 2011	Nine months ended September 30, 2012	Nine months ended September 30, 2011
Income tax expense	11	32	63	106

Income tax expense relates to provisions for income taxes on service income generated in Switzerland which is determined on the basis of the cost of the services. The amount reported in the three and nine months ended September 30, 2012 has decreased relative to the amounts reported in the comparable periods of 2011 due to less service costs incurred to support the lower levels of exploration activity undertaken in the reporting periods.

Results of Discontinued Operations

The main components of discontinued operations are explained as follows:

Expenses

In $000	Three months ended September 30, 2012	Three months ended September 30, 2011	Nine months ended September 30, 2012	Nine months ended September 30, 2011
Legal, accounting and audit fees	6	34	36	92
General and other office expenses	6	3	26	48
Asset retirement obligation	-	-	-	1,078
Management and consulting fees	-	9	-	27
Total expenses	12	46	62	1,245

The decrease in fees and expenses in the first nine months of 2012 relative to the amounts incurred in the comparable reporting periods of the year 2011 is due to the reduction in activity associated with the Company's United States based operations following the sale in 2009 of substantially all of the properties located there. The professional and general fees which the Company continues to incur are related to the decommissioning and windup of its remaining interests in the United States.

Gain on Sale of Asset

In $000	Three months ended September 30, 2012	Three months ended September 30, 2011	Nine months ended September 30, 2012	Nine months ended September 30, 2011
Deferred purchase price proceeds	-	-	-	1,078
Total gain on sale of asset	-	-	-	1,078

In April 2011 the Company received deferred purchase price proceeds of $1,078 relating to the 2009 sale of an oil and gas asset located in the United States.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Outstanding Share Data

The common shares of the Company outstanding at September 30, 2012 and at the date of this MD&A were 810,983,860, an increase from the number outstanding at January 1, 2012 by 3,000,000 common shares which were issued at CAD 0.24 per share to two related parties as an equity based financing fee in accordance with the terms of a debenture financing concluded on April 2, 2012. Refer also to the related party disclosures in the next section of this MD&A.

There were 2,640,001 stock options outstanding at September 30, 2012 under the Company's employee incentive stock option plan which is a decrease of 593,333 from the number outstanding at January 1, 2012. During the nine months ended September 30, 2012 there were no stock options granted (2011: nil), 450,000 stock options expired (2011: nil), 143,333 stock options were forfeited (2011: 50,000), and no stock options were exercised (2011: 91,666). There has been no further movement in stock options from September 30, 2012 to the date of this MD&A.

The Company has no warrants outstanding.

Related Party Transactions

In $000

	Purchases of services for periods ended September 30,				**Amounts owing at the reporting dates**	
	Three months		**Nine months**			
	2012	**2011**	**2012**	**2011**	**30 Sep 12**	**31 Dec 11**
Namdo Management Services Ltd.	134	119	231	295	4	7
Mile High Holdings Ltd.	6	-	6	31	6	19
McCullough O'Connor Irwin LLP	42	8	83	52	16	14
Vostok Naphta Investment Ltd.	16	10	19	14	-	-
Lundin family	359	-	719	-	-	-
Lundin Petroleum AB	267	342	419	1,677	38	78
Total	**824**	**479**	**1,477**	**2,069**	**64**	**118**

Namdo Management Services Ltd. is a private corporation owned by a shareholder of the Company which has provided corporate administrative support and investor relation services to the Company.

Mile High Holdings Ltd. is a private corporation associated with a shareholder of the Company which has provided transportation services to the Company in relation to its fundraising activities.
McCullough O'Connor Irwin LLP is a law firm in which an officer of the Company is a partner which has provided legal services to the Company.

Vostok Naphta Investment Ltd. is a corporation traded on the NASDAQ OMX Nordic Exchange in Stockholm (trading symbol VNIL SDB) associated with a shareholder of the Company and which has provided investor relations services to the Company in relation to its fundraising activities in Sweden.

The Company received a $10 million loan from the Lundin family through two investment companies who jointly are principal shareholders of the Company (the "Lenders"). In connection with the loan the Company has issued to the Lenders an aggregate of 3,000,000 common shares of the Company. The fair value of the shares issued has been expensed as a finance cost. The loan was repaid in full in August 2012.

The Company receives services from various subsidiary companies of Lundin Petroleum AB ("Lundin"), a shareholder of the Company. Lundin charges during the three and nine months ended September 30, 2012 of $267 (2011: $342) and $419 (2011: $1,677) were comprised of G&G and other technical service costs of $62 (2011: $38) and $130 (2011: $106), reimbursement for Company travel and related expenses of $nil (2011: $nil) and $1 (2011: $610), office rental, administrative and building services of $205 (2011: $98) and $288 (2011: $298), and $nil (2011: $206) and $nil (2011: $663) relating to a guarantee provided to the KRG on behalf of the Company in respect of its minimum financial commitments, payable semi-annually and charged at a rate of 1.5 % per annum (3.0% prior to July 1, 2010).

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

Liquidity and Capital Resources

Working capital at September 30, 2012 was $41.1 million compared to $11.3 million at September 30, 2011. The overall cash position of the Company increased by $49.1 million during the first nine months of the year 2012 compared to an increase in cash of $58.7 million during the comparable period of 2011. The main components of the movement in funds are discussed in the following paragraphs.

The operating activities of the Company during the first nine months of 2012 resulted in a decrease in the cash position by $45.6 million compared to an increase by $11.9 million in the first nine months of 2011. Payments to the KRG totaling $25 million in accordance with the terms of the agreements to relinquish the Pulkhana and Arbat Blocks as well as a decrease by $20.7 million in the accounts payable and accrued expense balances are the main reasons for the decrease in the year to date 2012 cash position due to operating activities.

Net cash inflows from investing activities during the first three quarters of 2012 were $39.4 million compared to cash outflows in the amount of $92.5 million over the same reporting period of 2011. The main components of cash inflows during the year to date period in 2012 were net proceeds of $53.5 million received on the sale of the Taza Block and other property plant and equipment and cash outflows due to spending of $5.8 million on the Atrush Block appraisal work program, $6.2 million on Taza Block exploration costs and $2.1 million on operational and support costs.

The Company received $10 million in cash from finance activities during the nine months of 2012 through an April 2012 debenture financing agreement with two investment companies who jointly are principal shareholders of the Company. The loan was repaid in full in August 2012. The investment companies received an equity based financing fee in respect of the loan which has been expensed as a finance cost and which had no effect on the cash position of the Company.

The share based payments reserve increased by $8 in the first nine months of 2012 (2011: decrease of $161) due to share based payments expense of $8 incurred during the period ($2011: $243). There were no stock options exercised during this period (2011: 1,301,666 options exercised at cost of $404). 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 share based payments are transferred from the share based payments reserve to share capital.

The Company does not currently generate revenues and corresponding cash flows from its oil exploration and development operations. The Company has relied upon the issuance of common shares, and proceeds from asset sales and loans to finance its ongoing oil exploration, development and acquisition activities. The Company has sufficient financial resources to fund its contractual commitments under the current agreed work plan through December 2013. Continuing operations are dependent on discovery of economic oil and gas reserves and ultimately on the attainment of profitable operations.

Commitments

Production Sharing Contracts ("PSCs")

ShaMaran holds 33.5% of the issued shares of General Exploration Partners Inc ("GEP") which holds an 80% working interest in the Atrush Block PSC. Marathon Oil Corporation holds the remaining 20% interest with the KRG holding an option to acquire up to a 25% interest in the PSC prior to 180 days after declaration of a commercial discovery. GEP is responsible for 80% of the costs incurred in executing the exploration and development work programs on the Atrush Block.

The PSC contemplates minimum financial commitments during the first exploration sub-period and also requires the Contractor to fund certain community development, personnel, training, environmental, and technological assistance projects during the period over which the contract is in effect. All qualifying petroleum costs incurred by the Contractor shall be recovered from a portion of available petroleum production, defined under the terms of the PSC. All modifications to the PSC are subject to the approval of the KRG.

As at September 30, 2012 the outstanding commitments of the Company were as follows:

	For the year ending September 30,				
	2013	**2014**	**2015**	**Thereafter**	**Total**
General Exploration Partners Inc	11,035	-	-	-	11,035
Office and other	117	-	-	-	117
Total commitments	**11,152**	**-**	**-**	**-**	**11,152**

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.

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 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.

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.

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 using International Financial Reporting Standards ("IFRS"). 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, share-based payments, amortisation 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 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.

There were no changes in the first nine months of the year 2012 to the resources previously reported by the Company as at December 31, 2011.

Outlook

The outlook to the end of the year 2013 is as follows:

Atrush Block

The Contractor is currently in the process of preparing a Field Development Plan which will be submitted to the Atrush Block Management Committee within 180 days following the Declaration of Commercial Discovery which was submitted on November 7, 2012.

The Atrush-3 appraisal well is expected to be spudded before the end of the current year. Civil engineering work is nearing completion which will provide road access to the Atrush-3 well location which is approximately 5km east of the Atrush-2 well. The drilling rig will be moved from the Atrush-1 well site to the Atrush-3 location.

The Atrush-4 and Atrush-5 appraisal wells are planned to be spudded during the year 2013. Planning for these wells is currently underway.

The 3D seismic acquisition program which covered the entire Atrush block and adjoining Swara Tika discovery was completed on August 11, 2012. Final processing of the complete 3D seismic survey is expected in the first quarter of 2013.

The tendering process has been completed for a contract to install and operate extended test facility ("ETF") with a maximum production capacity of 5,000 bopd. The ETF is expected to be commissioned in the first quarter of 2013 with production coming from the Atrush-1 well. The Atrush-2 well will be used to monitor reservoirs. An additional ETF is planned to be installed on the Atrush-3 well in the second half of the year 2013. Work on an enhanced ETF with production capacities from 10,000 bopd expandable to 30,000 bopd is planned to commence in the second half of the year 2013.

New Ventures

As part of its normal business the Company continues to evaluate new opportunities in the region.

Budget

At the end of September 2012 the Company had spent $47.7 million of the budgeted $80.6 million total for the year 2012 with an additional $11.9 million of costs forecasted for the final 3 months of 2012. The Board of Directors approved a budget for the year 2013 which includes net capital spending on the Atrush Block appraisal program and G&A support and corporate costs totaling $30.8 million. The Company currently has resources sufficient to satisfy its contractual obligations and commitments under the agreed budgets.

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. A number of major international oil companies, including Exxon, Chevron, Total and Gazprom, have acquired properties in Kurdistan over the last year. In addition, there have been a number of recent and significant discoveries in this region now undergoing appraisal and development.

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**.