

SHAMARAN PETROLEUM CORP.

MANAGEMENT DISCUSSION AND ANALYSIS

For the three months ended March 31, 2013

(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" together with its subsidiaries the "Company") is prepared as of May 13, 2013. The MD&A should be read in conjunction with the unaudited condensed interim consolidated financial statements for the three months ended March 31, 2013 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 currency amounts indicated as "\$" in this MD&A are expressed in thousands of United States dollars.

Overview

ShaMaran is a Canadian-based oil and gas company with a 20.1% direct 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

- A Field Development Plan for the Atrush Block was submitted for approval to the KRG on May 7, 2013 which is in accordance with the terms of the Atrush Block PSC.
- The Atrush-3 appraisal well, located five kilometers to the east of the Atrush-2 appraisal well, was spudded on March 25, 2013 with a planned total depth of 1,700 meters..
- The Company announced on February 4, 2013 an increase of 35% in Best Estimate 2C Contingent Resources (gross) for the Atrush Block, from 465.6 MMBOE at December 31, 2011 to 627.3 MMBOE at the end of 2012. The estimates were provided by the Company's independent qualified resources evaluator, McDaniel & Associates Consultants Ltd., in a Detailed Property Report prepared as at December 31, 2012.
- On March 12, 2013 the Contractor entities to the Atrush Block PSC were notified by the Kurdistan regional Government ("KRG") that it had exercised its option to acquire a 25% Government Interest in accordance with the provisions of the Atrush Block PSC.
- At March 31, 2013 the Company had a cash balance of \$35.3 million and working capital of \$26.7 million.

Operations in Kurdistan

The Company holds a 20.1% direct 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.

During the first three months of the year 2013 the Atrush 3 well was spudded, with a planned total depth of 1700 meters, and work on the Atrush Block Field Development Plan ("FDP") culminated with its submission for approval to the KRG on May 7, 2013 which is, in accordance with the terms of the PSC, within 180 days after the Declaration of Commercial Discovery made on November 7, 2012.

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 neighboring blocks including 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. In addition MOL Plc has announced an oil discovery in the Bakrman well on the Akri-Bijeel block which is to the east of and on trend with the Atrush Block. The structures located on the Atrush 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" ("KCC").

In August 2010 the Company acquired a 33.5% shareholding in General Exploration Partners Inc ("GEP") which then held an 80% working interest in the Atrush Block PSC, 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. On December 31, 2012 GEP sold a 53.2% direct interest in the Atrush Block to TAQA Atrush B.V. ("TAQA"), a subsidiary of Abu Dhabi National Energy Company PJSC, who also assumed from GEP the operatorship of the Block, and repurchased the entire 66.5% shareholding which Aspect held in GEP, leaving the Company with a 100% shareholding interest in GEP which then held a 26.8% direct interest in the PSC. The Company's direct interest in the PSC was 20.1% after the KRG exercised its option to participate, explained in the following paragraph.

On March 12, 2013 the Contractor entities to the Atrush Block PSC were notified by the KRG that it had exercised its option to acquire a 25% Government Interest in accordance with the provisions of the Atrush Block PSC. The KRG now participates as a Contractor Entity with a 25% undivided interest in the petroleum operations and all the other rights, duties, obligations and liabilities of the Contractor in the PSC and becomes liable for its 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 second 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 and productive. GEP submitted in October 2012 to the Ministry of Natural Resources of Kurdistan an 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 discovery well drilled in 2011. A workover on this well was completed in November 2012.

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 Operator (TAQA) 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.

On February 4, 2013 the Company announced an increase of 35% in Best Estimate 2C Contingent Resources for the Atrush Block, from 465.6 MMBOE at December 31, 2011 to 627.3 MMBOE at the end of 2012. The estimates were provided by the Company’s independent qualified resources evaluator, McDaniel & Associates Consultants Ltd. (“McDaniel”), in a Detailed Property Report prepared as at December 31, 2012 in accordance with standards set out in the Canadian National Instrument NI 51-101 and Canadian Oil and Gas Evaluation Handbook (“COGEH”). McDaniel estimates take into account the results of the Atrush-2 well (including the additional discovery in the Butmah formation) and remapping based on the recently acquired 3D seismic. In addition the Triassic Kurra Chine C is a new Prospective Resource for 2012 based on 3D seismic and reported results from nearby wells.

The Atrush-3 appraisal well was spudded on March 25, 2013 and is situated approximately 9km to the east of the Atrush-1 discovery well and 5 km to the east of the Atrush-2 appraisal well. The Atrush-3 well is an important step out from the previous two Atrush wells and is targeting the Oil Water Contact / Free Water Level in the reservoir section. The well has a planned total depth of 1,700 meters.

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							
	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30
	<u>2013</u>	<u>2012</u>	<u>2012</u>	<u>2012</u>	<u>2012</u>	<u>2011</u>	<u>2011</u>	<u>2011</u>
Continuing operations								
General and admin. (expense) / rec.	(450)	(1,497)	(512)	(459)	(384)	(283)	202	(837)
Share based payments (expense) / rec.	(1)	-	(2)	(8)	2	(21)	(70)	(114)
Depreciation and amortisation	(19)	(40)	(46)	(48)	(49)	(55)	(58)	(56)
Share of income / (loss) of associate	-	129,209	(97)	(46)	(66)	11	(173)	(30)
Relinquishment costs	-	-	-	-	(25,732)	-	-	-
Impairment recovery / (loss)	-	1,255	(138)	945	(248)	(207,504)	-	-
Gain on sale of asset	-	-	1,100	-	-	-	-	-
Gain on fair valuation of assets	-	102,735	-	-	-	-	-	-
Finance cost	-	(24)	(393)	(360)	-	(251)	(2,780)	(229)
Finance income	50	-	1	25	391	552	147	367
Income tax expense	(40)	(26)	(11)	(28)	(24)	(31)	(32)	(33)
Net (loss) / inc. from continuing ops.	(460)	231,612	(98)	21	(26,110)	(207,582)	(2,764)	(932)
Discontinued operations								
Expenses	(20)	1	(12)	(13)	(37)	(34)	(46)	(1,121)
Gain on sale of asset	-	-	-	-	-	-	-	1,078
Net loss from discontinued ops.	(20)	1	(12)	(13)	(37)	(34)	(46)	(43)
Net (loss) / income	(480)	231,613	(110)	8	(26,147)	(207,616)	(2,810)	(975)
Basic income / (loss) in \$ per share:								
Continuing operations	-	0.29	-	-	(0.03)	(0.28)	-	-
Discontinued operations	-	-	-	-	-	-	-	-
	-	0.29	-	-	(0.03)	(0.28)	-	-
Diluted income / (loss) in \$ per share:								
Continuing operations	-	0.29	-	-	(0.03)	(0.28)	-	-
Discontinued operations	-	-	-	-	-	-	-	-
	-	0.29	-	-	(0.03)	(0.28)	-	-

Summary of principal changes in first quarter information

In the first quarter of 2013 work on the Atrush Block development program continued. The net loss in the first quarter was primarily driven by the general and administrative expenses in respect of continuing operations.

Results of continuing operations

The Company's continuing operations are comprised 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 expense

In \$000

	Three months ended March 31,	
	2013	2012
Salaries and benefits	926	797
Management and consulting fees	176	243
General and other office expenses	128	217
Legal, accounting and audit fees	100	113
Listing costs and investor relations	71	42
Travel expenses	19	140
General and administrative expense incurred	1420	1,552
General and administrative expense capitalized as E&E assets	(970)	(1,168)
Net general and administrative expense	450	384

The Company capitalizes as exploration and evaluation ("E&E") assets general and administrative expenses supporting E&E activities which relate to direct interests held in production sharing contracts.

The decrease in general and administrative expenses incurred and capitalized in the three months ended March 31, 2013 relative to the amounts incurred and capitalized over the comparable periods of the prior year is primarily due to a decrease in the Company's technical and support activities between the comparative periods.

Share based payments expense

In \$000

	Three months ended March 31,	
	2013	2012
Share based payments expense / (recovery)	1	(2)

The share based payments expense results from the vesting of stock options granted in the years 2010 and 2011. No stock options were granted during the year ended December 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.

Share based payment expense for the three months ended March 31, 2012 was \$10. Due to a reversal of \$12 in share based payments expensed in the fourth quarter of 2011 relating to forfeited stock options the Company reported a net recovery of \$2 in share based payments expense for the three months ended March 31, 2012.

Depreciation and amortisation

In \$000

	Three months ended March 31,	
	2013	2012
Depreciation and amortisation	19	49

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 March 31,	
	2013	2012
Loss from investment in associate	-	66

The loss from investment in associate in the three months ended March 31, 2012 related to the Company's pro-rata portion of the net income of GEP in conducting petroleum operations on the Atrush Block in Kurdistan. Following the acquisition of control of GEP by the Company in December 2012 the Company is required to now consolidate GEP's financial results and position in the year 2013 and therefore this interest is no longer reported as an investment in associate.

Relinquishment costs*In \$000*

	Three months ended March 31,	
	2013	2012
Relinquishment fees	-	25,000
Costs to wind up Pulkhana and Arbat operations	-	732
Total relinquishment costs	-	25,732

The relinquishment costs incurred in the first three months of the year 2012 related to the Pulkhana and Arbat Block PSCs, to which the Company was previously a party, and which were relinquished to the KRG under two separate agreements signed on January 17, 2012. Under the terms of the agreements to the Company paid to the KRG in January 2012 a total of \$25 million in fees which relieved 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 were therefore expensed together with all costs associated with winding up operations on these blocks.

Impairment loss*In \$000*

	Three months ended March 31,	
	2013	2012
Write down of inventory to net realizable value	-	313
Recovery of impairment loss on PP&E	-	(65)
Impairment loss	-	248

The impairment loss incurred in the first three months of the year 2012 related to relinquishment of the Pulkhana and Arbat Block PSCs. The write down of inventory in the first quarter of 2012 was 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 recovery of impairment on property plant and equipment ("PP&E") was due to changes in previous estimates of net realizable value which have occurred in the course of liquidating assets relating to the relinquished blocks.

Finance income*In \$000*

	Three months ended March 31,	
	2013	2012
Foreign exchange gain	41	367
Interest income	9	24
Total finance income	50	391

The foreign exchange gain reported in the first three months of 2013 has resulted primarily from holding net assets denominated in United States dollars in the Swiss subsidiary of the group while the United States dollar strengthened during the reporting period against the Swiss Franc, the functional currency of the Swiss subsidiary. The foreign exchange gain in the first quarter of the year 2012 resulted primarily from holding cash and cash equivalents denominated in Canadian dollars while the Canadian dollar strengthened during the period against the United States dollar which is the reporting currency of the Company.

Interest income represents bank interest earned on cash and investments in marketable securities. The decrease in the amounts reported in the first three months of 2013 relative to the amount reported in the same period of the year 2012 is primarily due to holding interest generating funds in United States dollars rather than the Canadian dollars which were held over the comparable period of the prior year and returned a higher rate of interest.

Income tax expense*In \$000*

	Three months ended March 31,	
	2013	2012
Income tax expense	40	24

Income tax expense relates to provisions for income taxes on service income generated in Switzerland which is determined on the basis of the incurred cost of the related services. The amount reported in the first quarter 2013 has increased relative to the amount reported in the comparable period of 2012 due primarily to higher service costs incurred in the current reporting period.

Results of discontinued operations

The main components of discontinued operations are explained as follows:

Expenses*In \$000*

	Three months ended March 31,	
	2013	2012
Legal, accounting and audit fees	18	28
General and other office expenses	2	9
Total expenses	20	37

The decrease in fees and expenses in the first quarter 2013 relative to the amounts incurred in the first quarter of the year 2012 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.

Off-balance sheet arrangements

The Company has no off-balance sheet arrangements.

Outstanding share data

There was no change in the first quarter of 2013 in the number of common share of the Company outstanding which was 810,983,860 at December 31, 201, March 31, 2013 and at the date of this MD&A.

There was no change in the first quarter of 2013 in the number of stock options under the Company's employee incentive stock option plan outstanding which was 2,623,334 at December 31, 201 and at March 31, 2013. At the date of this MD&A the number of stock options outstanding was 8,263,334 following a grant of 5,640,000 stock options approved on April 12, 2013.

The Company has no warrants outstanding.

Related party transactions

In \$000

	Purchases of services for the three months ended		Amounts owing at the balance sheet dates	
	March 31, 2013	March 31, 2012	March 31, 2013	December 31, 2012
Namdo Management Services Ltd.	76	70	33	28
Mile High Holdings Ltd.	-	-	-	19
McCullough O'Connor Irwin LLP	(2)	16	7	22
Vostok Naphta Investment Ltd.	6	10	-	-
Lundin Petroleum AB	106	172	80	75
Total	186	268	120	144

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 receives services from various subsidiary companies of Lundin Petroleum AB ("Lundin"), a shareholder of the Company. Lundin charges during the three months ended March 31, 2013 of \$106 (2012: \$172) were comprised of G&G and other technical service costs of \$13 (2012: \$57), office rental, administrative and building services of \$93 (2012: \$115).

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 March 31, 2013 was \$26.7 million compared to \$1.3 million at March 31, 2012.

The overall cash position of the Company decreased by \$5.9 million during the first three months of 2013 compared to a decrease in cash of \$43.4 million during the comparable period of 2012. The main components of the movement in funds are discussed in the following paragraphs.

The operating activities of the Company during the first quarter of 2013 resulted in a decrease in the cash position by \$3.5 million compared to a decrease by \$41.6 million in the first quarter of 2012. A net loss of \$0.5 million and a decrease of \$2.9 million in the accounts payable and accrued expense balances are the main reasons for the decrease in the first quarter 2013 cash position due to operating activities. The remaining decrease of \$0.1 million was attributable to cash expenses from continuing operations and others movements in working capital.

Net cash outflows from investing activities in the first three months of 2013 were \$2.4 million compared to cash outflows in the amount of \$2.2 million in the comparable period of the year 2012. Substantially all of the cash outflows on investing activities in the current year relate to the Atrush Block appraisal and development work program.

There were no cash flows due to finance activities during the three months ended March 31, 2013 and 2012.

The share based payments reserve increased by \$1 in the first quarter of 2013 (2012: decrease of \$2) due to share based payments expense of \$1 incurred during the period. There were no stock options exercised during this period (2012: nil). 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 believes that based on the forecasts and projections they have prepared and a number of financing initiatives which are being pursued the Company and its subsidiaries will have resources sufficient to satisfy contractual obligations and commitments under agreed work programs. Although the Company is confident that it will be able to raise sufficient funds there is no assurance at the date these financial statements were approved that these financing initiatives will be successful. Continuing operations are dependent on discovery of economic oil and gas reserves and ultimately on the attainment of profitable operations.

Commitments

Atrush Block Production Sharing Contract ("PSC")

ShaMaran holds a 20.1% direct interest in the PSC through its wholly owned subsidiary General Exploration Partners Inc. TAQA Atrush B.V. ("TAQA"), a subsidiary of Abu Dhabi National Energy Company PJSC, is the operator with a 39.1% direct interest, Marathon Oil KDV B.V. holds a 15% direct interest, and the remaining 25% interest is held by the Kurdistan Regional Government (acquired on March 12, 2013).

Under the terms of the PSC, development period is for 20 years with an automatic right to a five year extension and the possibility to extend for an additional five years. The PSC requires the Contracting companies to fund certain training and environmental assistance projects over the development period. 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. The Company is responsible for its pro-rata share of the costs incurred in executing the development work program on the Atrush Block which commenced in November 2012.

As at March 31, 2013 the outstanding commitments of the Company were as follows:

	2014	For the year ending March 31,			Total
		2015	2016	Thereafter	
Atrush Block	5,986	120	120	2,052	8,278
Office and other	86	-	-	-	86
Total commitments	6,072	120	120	2,052	8,364

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 will not be sufficient to fund its ongoing activities. ShaMaran will 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, fair values of assets on acquisition of control, 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 quarter of 2013 to the resources previously reported by the Company as at December 31, 2012.

Outlook

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

Atrush Block

The Operator (TAQA) submitted to the KRG for approval a Field Development Plan ("FDP") on May 7, 2013 which is, in accordance with the terms of the Atrush Block PSC, within 180 days of the Declaration of Commercial Discovery made November 7, 2012.

The Atrush-3 appraisal well was spudded March 25, 2013 with a planned total depth of 1,700 meters. The well is located approximately 5km east of the Atrush-2 well and is an important step out from the previous two Atrush wells. In particular, the well is targeting the Oil Water Contact / Free Water Level in the reservoir section.

There are plans to drill Atrush-4 in 2013 and commence drilling Atrush-5. Technical discussions on the final location of these wells are currently underway.

The 3D seismic acquisition program which covered the entire Atrush block and adjoining Swara Tika discovery in the Sarsang Block was completed on August 11, 2012. Final processing of the complete 3D seismic survey is expected in the second quarter of 2013. Further processing is expected during 2013 with the specific purpose on enhancing the data for the development drilling program.

New Ventures

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

Budget

The Board of Directors provisionally approved a revised budget for the year 2013 which includes net capital spending on the Atrush Block appraisal program and G&A support and corporate costs totaling \$40.6 million. At the end of March 2013 the Company had spent \$3.9 million of the budgeted total for the year 2013. The Company is currently considering a number of financing initiatives.

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 website at www.shamaranpetroleum.com.