

SHAMARAN PETROLEUM CORP.

MANAGEMENT DISCUSSION AND ANALYSIS

For the three and nine months ended September 30, 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 November 12, 2013. 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, 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

- The Company announced on October 30, 2013 that its USD 150 million senior secured bond was fully subscribed. Net proceeds from the bond will be used to fund the Company's future capital expenditures related to the development of the Atrush Block. The bond is expected to close on November 13, 2013.
- On October 7, 2013 the Company announced that the Kurdistan Regional Government ("KRG") had approved Phase 1 of the Field Development Plan ("FDP") for the Atrush Block with an October 1, 2013 effective date for the commencement of the Development Period. The TAQA-operated Atrush Block, located 85 km northwest of Erbil, is planned to have an initial production capacity of 30,000 barrels of gross oil per day (bpd) with first oil expected by early 2015.
- The Atrush-4 Phase 1 development well spudded on October 20, 2013 with planned total depth ("TD") of 2,460 meters and an estimated drilling time of 70 days.
- The Atrush-3 appraisal well, located 6.5 kilometers to the east of the Atrush-2 appraisal well, was spudded on March 25, 2013 and reached TD of 1,806 meters on June 23, 2013 within the potential Phase 2 development area. The well confirmed the extension of the oil bearing BSAM reservoir (Jurassic age Barsarin-Sargelu-Alan-Mus formations), while also confirming lowest known oil at depths consistent with the previous wells. Drill stem tests conducted with hydrocarbons recovered to surface but due to equipment limitations accurate flow rates were unable to be determined. AT-3 has been suspended as a potential future producer.
- The Company announced on February 4, 2013 an increase of 35% in Best Estimate 2C Contingent Resources (gross) for the Atrush Block, from 465 MMBOE at December 31, 2011 to 627 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 KRG that it had exercised its option to acquire a 25% Government Interest in accordance with the provisions of the Atrush Block PSC.

Summary of Current 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.

On October 6, 2013 the DQE#31 drilling rig successfully plugged and abandoned the Atrush-1 ("AT-1") exploration well. AT1 was a discovery well but was subsequently abandoned as it was unsuitable for long-term production and is being replaced by Atrush-4 ("AT-4") and Atrush-5 ("AT-5") which are the second and third Phase 1 development wells. AT-4 is being drilled at a 70 degree hole angle targeting the untested up dip section of the Atrush accumulation. The well was spudded on October 20, 2013 and has an estimated drilling time of approximately 70 days.

During the third quarter of the year 2013 operations on the Atrush-3 well were completed. After a sidetrack due to mechanical issues, the Atrush-3 side track well ("AT-3") reached a final drilled depth of 1,806 meters on June 23, 2013. The well encountered an estimated oil column of 286m in the BSAM reservoir (to the calculated Free Water Level) and successfully extended the Atrush accumulation 6.5km further to the east, while proving producible oil 180m deeper than previous wells thereby reducing the uncertainty on the Oil Water Contact/Free Water Level. The well was suspended as a potential future producer.

In June 2013 an interference test was successfully completed between the AT-1 and Atrush-2 ("AT-2") wells which provided valuable reservoir information. The wells, which are 3.1km apart, confirmed excellent pressure communication and multi Darcy horizontal permeability through the fracture system in the BSAM reservoir.

Work on the Atrush Block FDP culminated with its submission for approval to the KRG on May 6, 2013 which is, in accordance with the terms of the PSC ("Production Sharing Contract"), within 180 days after the Declaration of Commercial Discovery made on November 7, 2012. The Company announced on October 7, 2013 that Phase 1 of the FDP for the Atrush Block was approved by the KRG. The initial 20-year Development Phase (as defined in Clause 12.9 of the PSC) commenced on October 1, 2013.

Atrush Block

a. Location and operational history

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. To the south of the Atrush block is the Shaikan Block which is currently being developed by Gulf Keystone Petroleum Ltd. Immediately to the north of the Atrush Block is the Sarsang block where Hillwood International Energy has 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. Also, on trend discoveries to the west on the Sheikh Adi and Ber Behar Blocks have been announced by Genel Energy plc. The Atrush structure contains multiple proven and potential stacked oil reservoirs in the Cretaceous, Jurassic and Triassic sections which, 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 upside in the shallower Cretaceous reservoirs, a northern extension of the Atrush oil accumulation at multiple levels into the Swara Tika structure and the deeper Triassic Kurra Chine.

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 on March 12, 2013 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 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 completed and ShaMaran has completed its mapping for all prospective levels.

The AT-2 appraisal well was spudded on May 23, 2012 and drilled to a planned total depth of 1,750 meters in the Butmah formation ahead of schedule on July 10, 2012. The Company announced on September 13, 2012 the results of the comprehensive AT-2 well testing program which confirmed through three separate DSTs the AT-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 ("MNR") of Kurdistan an AT-2 Discovery Report giving notice of the additional Discovery.

In September 2012 the drilling rig was moved from the AT-2 well to the AT-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. In May 2013 the Operator (TAQA) submitted a FDP to the Atrush Block Management Committee within the required 180 days following the DCD.

The AT-3 appraisal well was spudded on March 25, 2013 and, after a sidetrack due to mechanical issues, the well reached a final drilled depth of 1,806 meters on June 23, 2013. The well encountered an estimated oil column of 286m in the BSAM reservoir (to the calculated Free Water Level) and successfully extended the Atrush accumulation 6.5km further to the east, while proving producible oil 180m deeper than previous wells.

Following submission of the FDP the AT-1 exploration well was determined to be unsuitable for long-term production and was plugged and abandoned in October 2013.

b. Recent Operations and Results

i. Field Development Plan and First Phase Development

Work on the Atrush Block FDP culminated with its submission for approval to the KRG on May 6, 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. The FDP was presented in detail to the MNR in June 2013.

On October 7, 2013 the Company announced that Phase 1 of the FDP for the Atrush Block had been approved by the KRG. The initial 20-year Development Phase (as defined in Clause 12.9 of the PSC) commenced on the October 1, 2013. FEED studies have been completed with First Oil planned for early 2015. Phase 1 will consist of three producers (AT-2, AT-4 and AT-5) connected to a 30,000 bopd production facility.

ii. Resources and Reserves

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 AT-2 well (including the additional discovery in the Butmah formation) and remapping based on the recently acquired 3D seismic.

Preparation of the Detailed Property Report for the year ended December 31, 2013 (Reserves & Contingent Resources) has commenced. The final report is expected in early 2014. In addition, following the completion of the Company's mapping a separate Prospective Resource report is also being prepared.

iii. Atrush-1 / Atrush-2 Interference Test

In June 2013, an interference test was successfully completed between AT-1 and AT-2 which has provided valuable reservoir information. The wells, which are 3.1km apart, confirmed excellent pressure communication and multi Darcy horizontal permeability through the fracture system in the BSAM reservoir. Additional surface and bottom hole oil samples were taken from AT-1 for analysis.

iv. Atrush-3 / Atrush-3 ST1 Appraisal Well

The AT-3 appraisal well was spudded on March 23, 2013 using the DQE31 drilling rig. The well is situated approximately 9.6km to the east of the AT-1 discovery well and 6.5 km to the east of the AT-2 appraisal well. After a sidetrack due to mechanical issues, the well reached a final drilled depth of 1,806 meters on June 23, 2013. The well encountered an estimated oil column of 286m (to the calculated Free Water Level) with no water being encountered in the BSAM reservoir. The well successfully extended the Atrush accumulation 6.5km further to the east, while proving producible oil 180m deeper than previous wells.

v. Atrush-4 Appraisal / Development Well

The AT-4 is being drilled at high deviation up-dip towards the undrilled crest of the structure from the AT-1 drill pad. The well spudded on October 20, 2013 following the successful plugging and abandonment of AT-1 which it will replace.

vi. Atrush-5 Appraisal / Development Well

Planning is underway for the AT-5 well, as the third and final Phase 1 producer. The well is expected to follow AT-4 and be spudded in early 2014. The well is also planned to be drilled from the AT-1 pad perpendicular to AT-4.

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 <u>2013</u>	Jun 30 <u>2013</u>	Mar 31 <u>2013</u>	Dec 31 <u>2012</u>	Sep 30 <u>2012</u>	Jun 30 <u>2012</u>	Mar 31 <u>2012</u>	Dec 31 <u>2011</u>
Continuing operations								
General and admin. expense	(572)	(355)	(450)	(1,497)	(512)	(459)	(384)	(283)
Share based payments (expense) / rec.	(159)	(565)	(1)	-	(2)	(8)	2	(21)
Depreciation and amortisation	(19)	(16)	(19)	(40)	(46)	(48)	(49)	(55)
Share of income / (loss) of associate	-	-	-	129,209	(97)	(46)	(66)	11
Relinquishment costs	-	-	-	-	-	-	(25,732)	-
Impairment (loss) / recovery	-	(84)	-	1,255	(138)	945	(248)	(207,504)
Gain on sale of asset	-	-	-	-	1,100	-	-	-
Gain on fair valuation of assets	-	-	-	102,735	-	-	-	-
Finance cost	(64)	(23)	-	(24)	(393)	(360)	-	(251)
Finance income	7	10	50	-	1	25	391	552
Income tax expense	(13)	(10)	(40)	(26)	(11)	(28)	(24)	(31)
Net (loss) / inc. from continuing ops.	<u>(820)</u>	<u>(1,043)</u>	<u>(460)</u>	<u>231,612</u>	<u>(98)</u>	<u>21</u>	<u>(26,110)</u>	<u>(207,582)</u>
Discontinued operations								
(Expense) / income	<u>(13)</u>	<u>(7)</u>	<u>(20)</u>	<u>1</u>	<u>(12)</u>	<u>(13)</u>	<u>(37)</u>	<u>(34)</u>
Net (loss) / inc. from discontinued ops.	<u>(13)</u>	<u>(7)</u>	<u>(20)</u>	<u>1</u>	<u>(12)</u>	<u>(13)</u>	<u>(37)</u>	<u>(34)</u>
Net (loss) / income	<u>(833)</u>	<u>(1,050)</u>	<u>(480)</u>	<u>231,613</u>	<u>(110)</u>	<u>8</u>	<u>(26,147)</u>	<u>(207,616)</u>
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 third quarter information

In the third quarter of 2013 work on the Atrush Block development program continued. The net loss in the third quarter was primarily driven by the general and administrative expenses and share based payments expense 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 September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Salaries and benefits	558	540	2,052	1,967
Management and consulting fees	300	278	626	821
General and other office expenses	128	133	383	486
Legal, accounting and audit fees	112	53	234	358
Listing costs and investor relations	74	30	224	209
Travel expenses	40	49	117	250
General and administrative expense incurred	1,212	1,083	3,636	4,091
General and administrative expense capitalized as E&E assets	(640)	(571)	(2,259)	(2,736)
Net general and administrative expense	572	512	1,377	1,355

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 nine months ended September 30, 2013 relative to the amounts incurred and capitalized over the comparable period of the prior year is primarily due to a decrease in the Company's technical and support activities between the comparative period.

Share based payments expense*In \$000*

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Share based payments expense	159	2	725	8

The share based payments expense results from the vesting of stock options granted in the years 2010, 2011 and 2013. In the first nine months of the year 2013, 5,640,000 stock options were granted (year 2011: 25,000; year 2010: 1,390,000). No options were granted in the year 2012. 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 expense*In \$000*

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Depreciation and amortisation expense	19	46	54	143

Depreciation and amortisation expense 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,		Nine months ended September 30,	
	2013	2012	2013	2012
Loss from investment in associate	-	97	-	209

The loss from investment in associate in the three and nine months ended September 30, 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 by IFRS 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 September 30,		Nine months ended September 30,	
	2013	2012	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 nine 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 September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Write down drilling inventory to net realizable value	-	132	84	583
Recovery of impairment losses on E&E Assets	-	-	-	(1,100)
Loss / (recovery) of impairment loss on PP&E Assets	-	6	-	(42)
Impairment loss / (recovery)	-	138	84	(559)

The impairment losses on inventory are primarily due to the liquidation and restocking of certain drilling inventories which will no longer be used in drilling programs associated with the Pulkhana and Arbat Blocks due to their cancellation. In the first nine months of the year 2012 the Company released excess accrued costs which were capitalized as exploration and evaluation (E&E) assets resulting in a recovery of impairment losses previously recognized. The impairment loss / (recovery) on property plant and equipment ("PP&E") items during the first three quarters of 2012 were due to changes in previous estimates of net realizable value which have occurred in the course of liquidating these assets which relate to the relinquished blocks.

Gain on Sale of Assets*In \$000*

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
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,		Nine months ended September 30,	
	2013	2012	2013	2012
Foreign exchange loss	63	34	46	-
Unwinding discount on decommissioning provision	1	-	1	-
Interest expense on equity based financing fee	-	359	-	719
Total finance cost	64	393	47	719

The foreign exchange loss recorded in the third quarter of 2013 resulted primarily from holding net assets denominated in United States dollars in the Swiss subsidiary of the Group while the United States dollar weakened during the reporting period against Swiss Franc, the functional currency of the Swiss subsidiary.

The interest expense on equity based financing fee in the first nine months of the year 2012 related 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. The Company expensed the pro-rata portion of the total equity based financing incurred in the reporting periods relative to the total six month loan term.

Finance income*In \$000*

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Interest income	7	1	26	26
Foreign exchange gain	-	-	-	357
Total finance income	7	1	26	383

Interest income represents bank interest earned on cash and investments in marketable securities. The increase in the amounts reported in the quarter ended September 30, 2013 relative to the amount reported in the comparable period of the year 2012 is primarily due to holding a higher average balance of interest generating funds relative to the amount held in the comparable period of the prior year.

The foreign exchange gain in the first nine months 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.

Income tax expense*In \$000*

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Income tax expense	13	11	63	63

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 three months ended September 30, 2013 has increased slightly relative to the amount reported in the comparable period of 2012 due 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 September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Legal, accounting and audit fees	10	6	33	36
General and other office expenses	3	6	7	26
Total expenses	13	12	40	62

The decrease in fees and expenses in the first nine months of 2013 relative to the amounts incurred in the same period in 2012 is due to the reduction in activity associated with the Company's United States based operations following the sale in 2009 of the properties located there. The professional and general fees which the Company continues to incur are related to the decommissioning and windup of the interests it held 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 nine months of 2013 in the number of common share of the Company outstanding which was 810,983,860 at December 31, 2012, September 30, 2013 and at the date of this MD&A.

There were 8,263,334 stock options outstanding at September 30, 2013 under the Company's employee incentive stock option plan outstanding which is an increase of 5,640,000 from the number outstanding at January 1, 2013. During the nine months ended September 30, 2013 there were 5,640,000 stock options granted (2012: nil), no stock options expired (2012: 450,000). No stock options were forfeited (2012: 143,333) and no stock options were exercised (2012: nil) during the first nine months of 2013. There has been no further movement in stock options from September 30, 2013 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	
	Three months		Nine months		at the reporting dates	
	2013	2012	2013	2012	30 Sep 13	31 Dec 12
Namdo Management Services Ltd.	56	134	187	231	14	28
Mile High Holdings Ltd.	-	6	-	6	-	19
McCullough O'Connor Irwin LLP	1	42	8	83	5	22
Vostok Nafta Investment Ltd.	-	16	13	19	-	-
Lundin family	-	359	-	719	-	-
Lundin Petroleum AB	250	267	457	419	222	75
Total	307	824	665	1,477	241	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 investor relation 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 Nafta 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 Sweden.

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, 2013 of \$250 (2012: \$267) and \$457 (2012: \$419) were comprised of G&G and other technical service costs of \$157 (2012: \$62) and \$178 (2012: \$130), reimbursement for Company travel and related expenses of \$nil (2012: \$nil) and \$nil (2012: \$1), office rental, administrative and building services of \$93 (2012: \$205) and \$279 (2012: \$288).

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.

Refer also to discussion on bond financing under the following "Liquidity and capital resources" section.

Liquidity and capital resources

Working capital at September 30, 2013 was \$1.7 million compared to \$41.1 million at September 30, 2012.

The overall cash position of the Company decreased by \$26.5 million during the first nine months of 2013 compared to a decrease in cash of \$5.8 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 nine months of 2013 resulted in an increase in the cash position by \$5.0 million compared to a decrease by \$45.6 million in the nine months of 2012. A net loss of \$2.3 million offset by \$7.3 million positive cash adjustments from on working capital and non-cash expenses are the main reasons for the increase in the cash position over the first nine months of 2013 due to operating activities.

Net cash outflows to investing activities in the first half of 2013 were \$31.5 million compared to cash inflows in the amount of \$39.4 million in the comparable period of the year 2012. The main reasons for the cash outflows on investing activities in the current year relate to \$26.5 million spent on the Atrush Block appraisal and development work program as well as a repayment in July 2013 of \$5 million for a deferred liability relating to the December 2012 acquisition of control of GEP.

There were no cash flows due to finance activities during the nine months ended September 30, 2013.

The share based payments reserve increased by \$725 in the first nine months of 2013 (2012: \$8) due entirely to share based payments expense 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 announced on October 30, 2013 that its USD 150 million senior secured bond was fully subscribed. Of the total USD 33.8 million was subscribed to by related parties. The bond will have five years duration without amortization and carries 11.5% fixed semi-annual coupon. The Company anticipates that proceeds from the bond, which is expected to close on November 13, 2013, will enable it to finance development activities to achieve first production. Future development phases of the Atrush field are expected to be financed using cash flows from the sale of oil production from the Atrush Block.

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, proceeds from asset sales and, most recently, bonds, to finance its ongoing oil exploration, development and acquisition activities. Upon closing of the bond the Company will have sufficient financial resources to fund its commitments under the current agreed work plan. Continuing operations are dependent on discovery of economic oil and gas reserves and ultimately on the attainment of profitable operations.

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 39.9% 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 on October 1, 2013.

As at September 30, 2013 the outstanding commitments of the Company were as follows:

	For the year ending September 30,				Total
	2014	2015	2016	Thereafter	
Atrush Block	7,641	120	120	2,052	9,933
Office and other	119	-	-	-	119
Total commitments	7,760	120	120	2,052	10,052

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, 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 nine months 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

Following the KRG approval of Phase 1 plans are being implemented to achieve First Oil of 30,000 bopd by early 2015. The Contractor group and the MNR are working closely to fast-track First Oil.

Drilling of the AT-4 appraisal/development well is expected to continue to year end. Depending on well results, numerous well tests may be conducted.

The FEED for the Phase 1 Production Facilities was completed in October. Bids for the facilities are expected in November, with contracts likely to be awarded by the end of year 2013.

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 September 2013 the Company had spent \$27.9 million of the budgeted total for the year 2013.

The Company anticipates that the proceeds of a USD 150 million bond issue, expected to close on November 13, 2013, will enable it to finance development activities to achieve first production. Future development phases of the Atrush field are expected to be financed using cash flows from the sale of oil production from the Atrush Block.

General

The security situation in Kurdistan remains stable. The region continues to see 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 ExxonMobil, Chevron, Marathon, Repsol, Total and Gazprom, have acquired properties in Kurdistan over the last two years. A number of significant discoveries in this region continue to be reported and many are 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.