SHAMARAN PETROLEUM CORP.
(formerly Bayou Bend Petroleum Ltd.)

MANAGEMENT DISCUSSION AND ANALYSIS
(Amounts in United States Dollars unless otherwise indicated)
Years Ended December 31, 2009 and 2008

Management's discussion and analysis ("MD&A") of the financial and operating results of ShaMaran Petroleum Corp. (the "Company" or "ShaMaran" and formerly Bayou Bend Petroleum Ltd) should be read in conjunction with the audited consolidated financial statements for the years ended December 31, 2009 and 2008 and related notes thereto, prepared in accordance with Canadian generally accepted accounting principles. The effective date of the MD&A is April 20, 2009. Additional information related to the Company is available on SEDAR at www.sedar.com and on the Company's web-site at www.shamaranpetroleum.com.

Overview

ShaMaran is a Canadian-based oil and gas company with interests in petroleum properties located in the southeastern area of the autonomous region of Kurdistan in Northern Iraq ("Kurdistan"). The Company formerly held interests in petroleum properties in the USA, operating under the name Bayou Bend Petroleum Ltd. and traded on the TSX Venture Exchange under the symbol "BBP". In the fourth quarter of 2009, the Company changed its name to ShaMaran Petroleum Corp., and commenced trading under the symbol "SNM".

Highlights

Operating

The sale of substantially all of the Company's oil and gas properties located in the United States in the Gulf of Mexico was completed in the second quarter of 2009.

Agreements for three separate petroleum properties located in Kurdistan were signed on August 28, 2009, whereby the Company will pursue petroleum exploration and development operations governed by production sharing contracts ("PSCs") signed with the KRG. Entry into the PSCs was approved by the Company's shareholders and the TSX Venture Exchange on October 16, 2009.

The Company is currently in the pre-production stages of its exploration and development campaign corresponding to the three petroleum properties located in Kurdistan. At the date of this MD&A, the Company was in the process of acquiring 2D seismic data in the Pulkhana Block petroleum property.

Financial

The issuance of 140 million common shares of the Company generated net proceeds of Cdn $99,696,000 during the month of October, 2009.

The Company completed in October 2009 all of its Capacity Building and Signature Support payments due to the KRG as required under its Production Sharing Contracts (PSC).

Cash balance of the Company was $63.5 million as at December 31, 2009.

Corporate

Changes to executive management of the Company were effected in December 2009 in order to strengthen core operations and retain individuals with the relevant depth of oil and gas experience required to conduct oil and gas operations in Kurdistan. Refer to the discussion in this MD&A under "Changes in Directors and Officers".

Petroleum Property Acquisitions in Kurdistan

During the year 2009 the Company acquired working interests in each of the Pulkhana Block, the Arbat Block and Block K42 petroleum properties, all located in south eastern Kurdistan.

These petroleum properties lie within the northern extension of the Zagros Folded Belt which is estimated to contain up to 45 billion of Iraq's 115 billion barrels of known reserves. The Kirkuk field lies within this fold belt trend and is one of the world's largest, containing reserves of over 20 billion barrels of oil. The area is underexplored and is currently undergoing a major exploration and development campaign by over 30 mid to large size international oil companies. Iraqi-Kurdistan is one of few regions in the prolific Middle East oil province where international operators have access to production sharing contracts which allow them to share the upside potential with host governments.

Pulkhana Block

The Pulkhana block was one of the original four PSCs awarded in 2003. It was acquired by Petoil Petroleum and Petroleum Products International Exploration and Production Inc ("Petoil"), a Turkish company, and ratified by the Iraq Federal government prior to the Oil and Gas Law Of The Kurdistan Region - Iraq, which was passed in 2007. It is an appraisal/development project of a field which was discovered in 1956 and flowed over 2900 barrels of oil per day from a well which entered two fractured carbonate reservoirs.

The Company is currently in the process of acquiring 250 km of two dimensional seismic data, and plans to drill 3 appraisal wells in the first 3 year exploration sub-period in order to confirm the size and economic viability of the development of the Pulkhana field. The Company will then have the option to continue on to a further two year exploration sub-period and, if development is warranted, a development period of up to 20 years.

The Company is the operator of the project with a 60% undivided interest in the petroleum operations. Petoil retains a 20% interest and the KRG holds the remaining 20%. The Company is required to pay 100% of the minimum financial commitment in respect of the first exploration sub-period, following which the Company will pay 75% of the forward costs. Fiscal terms under the PSC include a 10% royalty and a variable profit split based on a profitability factor to the KRG. The Company has the right to recover costs using up to 40% of the produced oil and 50% of the produced gas.

Capacity building bonuses (social responsibility) of $42.5 million were paid to the KRG on October 23, 2009 and 65 million common shares of ShaMaran are pending to be issued to the KRG, as part of the Company's cost of acquisition and social responsibility to the Kurdistan Region. In addition, the Company paid $15 million on October 23, 2009 to Petoil under the terms of a participation agreement, and is required to carry their costs in respect of the first exploration sub-period.

Arbat Block

The Arbat Block (formerly Block G) is located adjacent to the Miran Block of Heritage and Block 9 recently signed by Talisman Energy Corp. This 973 sq. km exploration block is part of the same structural trend that contains the Miran West discovery of Heritage Oil Plc, and includes five surface anticlines identified by recent field work.

Under the terms of the Arbat PSC, which was also originally approved as part of the Pulkhana approval, the Company is obliged to acquire 350 km of 2D seismic data and drill 2 wells in the first 3 year exploration sub-period.

The Company is the operator of the project and holds a 60% undivided interest in the petroleum operations, the KRG holds a 20% interest and the remaining 20% is a third party interest which the KRG has the option to assign to a third party or parties . The Company is required to pay 100% of the minimum financial commitment in respect of the first exploration sub period or until such time as the KRG's reserved 20% interest has been sold, following which the Company will pay 75% of the forward costs and receive a reimbursement for 25% of the costs incurred to that date. Fiscal terms under the PSC include a 10% royalty and a variable profit split based on a profitability factor to the KRG. The Company has the right to recover costs using up to 45% of the produced oil and 53% of the produced gas.

Capacity building bonuses of $20 million were paid to the KRG on October 23, 2009 and 35 million common shares of ShaMaran are pending to be issued to the KRG.

Block K42

Block K42 is located immediately north of the Pulkhana Block and is on trend with the Jambur field situated to the north west of the Block. It is an exploration block with no seismic or surface mapped prospects. Recent field work indicates the possibility of two buried folds in the Block.

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

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

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

Capacity building bonuses of $5 million were paid to the KRG on October 23, 2009. Should the option to enter into a PSC with the KRG be exercised, an additional $20 million is to be paid by the Company to the KRG at that time.

Other Acquisition Costs – Net Profit Interest

The Company incurred $4.5 million of acquisition costs directly related to the acquisition of its interests in Kurdistan, and has entered into agreements for local services whereby certain third parties are entitled to receive a net profit interest in respect of the Pulkhana Block 10 and Arbat Block PSCs.

Netherlands Company – ShaMaran Petroleum BV

The Kurdish projects were originally identified and evaluated by Lundin Petroleum B.V. ("LUPE"), which also provides support to the Company in terms of technical services and certain corporate guarantees. In the fourth quarter of the year 2009, the Company completed the acquisition from LUPE of 100% of the common shares of BBPL International BV, a company incorporated in the Netherlands, in exchange for consideration of $1.00 in cash and 50 million shares of the Company issued at a price of Cdn $0.67 per share, for a total purchase price of $31,965,000. The name of the acquired company was subsequently changed to ShaMaran Petroleum BV.

Changes in Directors and Officers

On July 31, 2009, the Company accepted the resignation of John Zaozirny as a director of the Company. Cameron Bailey and Alexandre Schneiter were subsequently appointed as directors of the Company.

In December 2009, Mr. Pradeep Kabra, who originally joined the Company as Chief Operating Officer on September 30, 2009, was promoted to President and Chief Executive Officer on December 14, 2009, replacing Mr. Keith Hill who remains the Chairman of the Board. In addition, John Ashbridge was appointed as the Chief Operating Officer and Mr. Brenden Johnstone was appointed Chief Financial Officer on December 14, 2009. John Ashbridge resigned from his position as Chief Operating Officer in April 2010.

Selected Annual Information

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

	December 31		
($000s, except per share data, shares)	2009	2008	2007
Net revenues - continuing operations	-	-	-
Net revenues - discontinued operations	1,658	5,009	2,729
Income (loss) - continuing operations	1,675	(5,294)	17,375
Income (loss) - discontinued operations	1,241	(92,756)	(75,847)
Net income (loss)	2,916	(98,050)	(58,472)
Basic income (loss) per share:			
Continuing operations	0.005	(0.02)	0.06
Discontinued operations	0.005	(0.30)	(0.27)
	0.01	(0.32)	(0.21)
Diluted income (loss) per share:			
Continuing operations	0.005	(0.02)	0.06
Discontinued operations	0.005	(0.30)	(0.27)
	0.01	(0.32)	(0.21)
Total assets	249,999	63,594	166,841
Working Capital Surplus	59,903	41,595	80,120
Shareholder's equity	244,563	54,466	151,665
Common shares outstanding (x 1000)	499,546	308,756	308,256

Summary of principal changes in annual information

Consistent with the refocus of operations in the year 2009, the Company acquired three petroleum properties located in Kurdistan which, combined with the costs associated with initiating the exploration campaign, resulted in capitalized costs of $184,953,000. To finance the acquisitions and future operations the Company raised funds in the fourth quarter of 2009 through the issuance of 140 million shares at Cdn $0.75 per share, resulting in gross proceeds of Cdn $105,000,000 (Cdn $99,696,000 net of fees). As a result of these developments the assets, common shares outstanding, and shareholders’ equity reported at the end of the current year have increased between the years 2009 and 2008. The exploration campaign relating to the Kurdish properties, which represent the continuing operations of the Company, commenced in the fourth quarter of 2009. The continuing operations of the Company currently have no corresponding revenue.

Included in the loss for the year 2008 from discontinued operations is an impairment expense of $56,300,000, primarily related to adjustments to reflect the estimated market value of unproved properties. This loss together with the decrease in working capital over the same period has contributed to a significant decline in assets between the years 2008 and 2007.

Results of Continuing Operations

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

Exploration costs

The Company incurred exploration costs of $636,000 for the year ended December 31, 2009 and $nil for 2008. The exploration costs were primarily related to fees payable to a related company in respect of a guarantee of the minimum financial obligations under the Pulkhana and Arbat PSCs, which were provided on behalf of the Company.

Depletion, Depreciation and Amortization

Depletion, depreciation and amortization ("DD&A") was $6,000 for the year ended December 31, 2009. For the previous year the comparable amount was $nil. DD&A corresponds to the furniture and IT equipment at the Company's technical and administrative office located in Vésenaz, Switzerland.

General and Administrative Expenses

For the year ended December 31, 2009 general and administrative expenses were $2,378,000 (2008: $469,000), the principal components of which were legal, accounting and audit fees of $652,000 (2008: $145,000), management and consulting fees of $420,000 (2008: $299,000), sponsorships of $522,000 (2008: $nil), and $610,000 (2008: $45,000) for travel and related expenses. The additional professional assistance and travel associated with the acquisition of the Kurdistan petroleum properties and associated equity fundraising activities has given rise to the general increase in general and administrative expenses relative to the comparable amounts in the year 2008.

Stock-Based Compensation

Stock-based compensation was $546,000 for the year ended December 31, 2009. The comparable amount in 2008 was $801,000. The stock-based compensation expense in 2009 results primarily from the issuance of 2,085,000 stock options and the vesting of stock options that were granted in 2009 and 2008. The Company uses the fair value method of accounting for stock options granted to directors, officers, employees and consultants whereby the fair value of all stock options granted is recorded as a charge to operations. The fair value of common share options granted is estimated on the date of grant using the Black-Scholes option pricing model.

Foreign Exchange (Gain) Loss

Foreign exchange gain was $4,943,000 for the year ended December 31, 2009. The Company had a foreign exchange loss of $5,010,000 during 2008. The gain in 2009 results from holding cash and cash equivalents denominated in Canadian dollars, while the Canadian dollar strengthened against the reporting currency of the Company, the United States dollar.

Interest Income

For the year ended December 31, 2009 and 2008, interest income was $310,000 and $986,000, respectively. Interest income represents bank interest earned on cash and investments in marketable securities. The decrease in interest income compared to 2008 results from a decrease in average interest yielding investments held throughout the year, together with a decrease in yield on those investments than was received in the prior year.

Tax expense

For the year ended December 31, 2009 the Company had income tax expense of $12,000, relating to a provision for income tax on service income generated in the newly created Swiss branch entity of ShaMaran group. There was no income tax expense reported in 2008.

Results of Discontinued Operations

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

Net revenues

The Company had oil and gas sales, net of royalties, of $1,658,000 and $5,009,000 for the years ended December 31, 2009 and 2008, respectively. The decrease in revenues is a result of the termination of all production and corresponding sales on May 28, 2009, coinciding with the sale of substantially all of the Company’s U.S. Gulf of Mexico properties. In addition, commodity prices for sales during the year 2009 were lower than prices earned on 2008 sales.

Expenses

Expenses associated with the Company’s discontinued operations were $2,041,000 for the year ended December 31, 2009. In the prior year the comparable amount was $98,835,000. The main components of expenses in the year 2009 were operating exploration and dry-hole costs totaling $1,592,000, general and administrative expenses of $3,072,000, as well as a reclassification of the cumulative foreign currency translation gain of $3,282,000 previously reported as accumulated other comprehensive income. The main components of costs and expenses in the year 2008 were operating exploration and dry-hole costs totaling $25,418,000, general and administrative expenses of $2,894,000, as well as impairment of property expenses of $68,556,000, which included a charge of $56,300,000 to reflect the estimated market value of unproved properties.

Gain on disposal of assets from discontinued operations

In 2009 the Company had a gain of $1,600,000 on disposal of the oil and gas assets located in the United States. The comparable amount for the year 2008 was $nil.

Selected Quarterly Information

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

	For the Quarter Ended							
($000s, except per share data)	Dec 31 2009	Sep 30 2009	Jun 30 2009	Mar 31 2009	Dec 31 2008	Sep 30 2008	Jun 30 2008	Mar 31 2008
Net revenues - continuing operations	-	-	-	-	-	-	-	-
Net revenues - discontinued operations	-	-	943	715	1,663	1,583	798	965
Income (loss) - continuing operations	(1,201)	3,197	1,591	(1,912)	(3,523)	(815)	83	(1,039)
Income (loss) - discontinued operations	1,458	(42)	1,972	(2,147)	(68,633)	(15,339)	(5,876)	(2,908)
Net income (loss)	257	3,155	3,563	(4,059)	(72,156)	(16,154)	(5,793)	(3,947)
Basic income (loss) per share:								
Continuing operations	-	0.01	0.01	(0.01)	(0.02)	(0.00)	(0.00)	(0.00)
Discontinued operations	-	-	0.01	(0.01)	(0.22)	(0.05)	(0.02)	(0.01)
	-	0.01	0.02	(0.02)	(0.24)	(0.05)	(0.02)	(0.01)
Diluted income (loss) per share:								
Continuing operations	-	0.01	0.01	(0.01)	(0.02)	(0.00)	(0.00)	(0.00)
Discontinued operations	-	-	0.01	(0.01)	(0.22)	(0.05)	(0.02)	(0.01)
	-	0.01	0.02	(0.02)	(0.24)	(0.05)	(0.02)	(0.01)

Summary of principal changes in fourth quarter information

In the fourth quarter of 2009, the Company commenced its exploration campaign in respect of the Kurdish petroleum properties, constituting the continuing operations of the Company, and which have no corresponding revenue. The net income in the fourth quarter was primarily driven by the reclassification, on the substantial sale of its US operations, of the Company's cumulative foreign currency translation gain of $3,282,000 previously reported within accumulated other comprehensive income.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Outstanding Share Data

As of March 31, 2010, the Company had 499,546,088 shares outstanding, 4,885,000 stock options outstanding under its stock-based compensation plan and zero warrants outstanding.

In accordance with the Kurdistan PSCs, the Company is required to issue an additional 100 million shares to the KRG. These shares have been reported as "Shares to be issued" in the Shareholders equity section of the consolidated balance sheet of the Company, as at December 31, 2009, as the issuance was pending subject to certain actions to be performed by the KRG.

The following contingent share consideration may be payable in the future, pending the following circumstances:

- 50 million common shares to the KRG within 30 days of the expiry of the first exploration sub-period, if the Pulkhana PSC is still then in effect;
- 50 million common shares to LUPE upon the approval of a Pulkhana development plan.

Related Party Transactions

Namdo Management Services Ltd. ("Namdo") provides corporate administrative support and investor relation services to the Company under an agreement which commenced April 1, 2007. For these services Namdo was paid $214,000 during the current year (2008: $264,000). Namdo is a private corporation owned by a shareholder of the Company.

Mile High Holdings Ltd., a private corporation associated to a shareholder of the Company, provided transportation services to the Company in the amount of $385,000 (2008: $nil) related to petroleum property acquisition and fundraising activities.

During the current year, the Company incurred legal fees of $217,000 (2008: $18,000) with a law firm in which an officer of the Company is a partner.

During the year ended December 31, 2008, the Company incurred geological and geophysical (G&G) costs of $469,000, respectively, with a G&G firm in which an officer of the Company is a managing partner. No charges were incurred from this firm in the current year.

The Company receives services from various subsidiary companies of Lundin Petroleum AB ("Lundin"), a shareholder of the Company. Lundin charges during the year were $1,245,000 (2008: $nil) which was comprised of G&G and other technical service costs of $317,000 (2008: $nil), reimbursement for travel and related expenses of $207,000 (2008: $nil), office rental, administrative and building services of $86,000 (2008: $nil), and fees of $635,000 (2008: $nil) relating to a guarantee provided to the KRG on behalf of the Company in respect of its minimum financial commitments, charged at a rate of 3% per annum, and payable semi-annually beginning 30 June 2010.

Amounts owing to related parties as at December 31, 2009 were $1,152,000 (2008: $nil). The Company was owed no amounts by related parties at the reporting dates.

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

Liquidity and Capital Resources

Working capital at December 31, 2009, totaled $59,903,000, compared to $41,595,000 at December 31, 2008.

Funds provided by continuing operations were $3,574,000 for the year ended December 31, 2009 compared to funds used by continuing operations of $4,491,000 for the year 2008. The primary source of operational funds during 2009 was from the appreciation of the Canadian cash deposits when converted to US dollars.

Net cash provided by financing activities from continuing operations for the year ended December 31, 2009 was $96,598,000 compared to $50,000 for 2008. The source of the funds was the issuance in the 4th quarter of 2009 of 140 million common shares of the Company.

Net cash used by investing activities in continuing operations was $91,230,000 for the year ended December 31, 2009, compared to no movement in funds due to investing activities from continuing operations in 2008. During the year 2009, the primary use of cash by the Company on investing activities in continuing operations was in the acquisition of three petroleum properties in Kurdistan.

Net cash provided by discontinued operations was $9,337,000 for the year ended December 31, 2009, compared to cash used by discontinued operations of $8,852,000 in 2008. The primary source of funds from discontinued operations in the year 2009 was proceeds from the sale of the oil and gas properties located in the United States.

Contributed surplus increased $336,000 for the year ended December 31, 2009, compared to $787,000 in 2008. The increase is due to stock-based compensation for the year offset by the exercise of options. When options are granted, the Black-Scholes option value method is used to calculate a value for the stock options. The offset to the amount that is recorded as stock compensation expense is a credit to contributed surplus. When the options are exercised, the applicable amounts of contributed surplus are transferred to share capital. During the year ended December 31, 2009, 790,000 stock options were exercised. No stock options were exercised during the year 2008.

The Company does not currently generate cash flow from its oil exploration and development operations. The Company has relied upon the issuance of common shares to finance its ongoing oil exploration, development and acquisition activities. Notwithstanding, the Company has sufficient financial resources to fund operations through the 2010 fiscal year. Continuing operations are dependent on discovery of economic oil and gas reserves and ultimately on the attainment of profitable operations.

Commitments

The Kurdish Production Sharing Contracts contemplate a minimum financial commitment in respect of the first exploration sub-period of $61 million for the Pulkhana and Arbat Blocks combined. The PSCs also require funding of certain personnel, training, environmental, and technological assistance projects, during the period the contracts are in effect. As at December 31, 2009 the commitments under the two PSCs were approximately $64 million.

As a party to the K42 Option Agreement the Company was required to contribute to the cost of conducting certain seismic services, including the acquisition of 2D seismic data. The Company estimates as at December 31, 2009 its remaining minimum commitments under the K 42 Option Agreement to be approximately $2 million.

Financial Instruments

The Company's financial instruments consist of cash, cash equivalents, investments, accounts receivable, accounts payable, accrued expenses and advances from joint interest holders.

Cash, cash equivalents and 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 advances from joint interest holders approximate carrying values because of the short-term nature of these instruments. The fair values of investments are determined directly by reference to quoted market prices.

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

Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company manages its credit risk through monitoring counterparty ratings and credit limits. The Company is mainly exposed to credit risk on its cash and cash equivalents and accounts receivable. To manage this risk the Company maintains its excess cash on account in instruments having a minimum credit rating of R-1 (mid) or better (as measured by Dominion Bond Rate Services) or the equivalent thereof according to a recognized bond rating service.

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

Liquidity Risk

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

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

Market Risk

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

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

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

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

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

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

Accounting Policies and Critical Accounting Estimates

Use of Estimates

The consolidated financial statements of the Company have been prepared by management in accordance with accounting principles generally accepted in Canada. In preparing financial statements, management makes informed judgments and estimates that affect the reported amounts of assets and liabilities as of the date of the financial statements and affect the reported amounts of revenues and expenses during the reported period. Specifically, estimates were utilized in calculating depletion, asset retirement obligations, stock-based compensation, amortization and impairment write-downs. Actual results could differ from these estimates and differences could be material.

Accounting for Oil and Gas Operations

The Company follows the successful efforts method of accounting for its oil and gas operations. Under this method acquisition costs of oil and gas properties, costs to drill and equip exploratory wells that find proved reserves and costs of drilling and equipping development wells are capitalized and subject to annual impairment testing.

Exploration well costs are initially capitalized and, if subsequently determined to have not found sufficient reserves to justify commercial production, are charged to exploration expense. Exploration well costs that have found sufficient reserves to justify commercial production, but whose reserves cannot be classified as proved, continue to be capitalized as long as sufficient progress is being made to assess the reserves and economic viability of the well and or related project.

Capitalized costs of proved oil and gas properties are depleted using the unit of production method based on estimated gross proved reserves of petroleum and natural gas as determined by independent engineers. Successful exploratory wells and development costs and acquired resource properties are depleted over proved developed reserves. Acquisition costs of unproved reserves are not depleted or amortized while under active evaluation for commercial reserves.

Costs associated with significant development projects are depleted once commercial production commences.

A revision to the estimate of proved reserves can have a significant impact on earnings as they are a key component in the calculation of depreciation, depletion and accretion.

Producing properties and significant unproved properties are assessed annually, or more frequently as economic events dictate, for potential impairment. The impairment test is initially based on undiscounted future cash flows from proved and risk adjusted probable reserves. If an impairment is identified, fair value is calculated as the present value of estimated expected discounted cash flows from proved and risk-adjusted probable reserves. Any impairment loss is the difference between the carrying value of the petroleum property and its fair value. 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 financial statements reflect only the Company's proportionate interests in such activities.

The Company engaged Petrotech Engineering Ltd, an independent geoscience consultancy firm, to evaluate 100% of the Company's reserves data at December 31, 2009. The estimation of reserves is subjective. Forecasts are based on engineering data, future prices, expected future rates of production and the timing of capital expenditures, all of which are subject to uncertainties and interpretations. All of the Company's proved and probable oil and gas reserves at December 31, 2008, were sold to third parties during the first half of 2009, and the Company has no reserves as at December 31, 2009.

International Financial Reporting Standards

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

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

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

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

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

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

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

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

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

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

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

Control Environment (Ongoing to 2011 year end reporting)

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

Training and Communication (Ongoing to first quarter 2011 reporting)

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

IT Systems (Ongoing to 2011 year end reporting)

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

Business Activities (Ongoing to 2011 year end reporting)

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

Risks and Uncertainties

The majority of ShaMaran's assets are located in the Kurdistan Region of Iraq. 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 a change in 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 major outstanding political issues and differences between the various political factions in Iraq. These differences could adversely impact ShaMaran's interests in the Kurdistan region. In addition, certain borders of the Kurdistan region of Iraq remain the subject of final determination, the result of which may have an adverse effect on ShaMaran's assets.

Legislative Issues

All contracts in Kurdistan 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 the Kurdistan Region of Iraq 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 which even a combination of experience, knowledge and careful evaluation may not be able to overcome. 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.

Ability to Execute Exploration and Development Program

ShaMaran has the capacity to execute exploration and development programs in Kurdistan. It is however possible that ShaMaran may not be able to fully execute its desired strategies because of the need to involve and to obtain approvals from the relevant authorities.

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 issues relating to security in the area of operation, adverse legislation in the Kurdistan Region and/or Iraq, the regulation of the oil and gas industry by various levels of government and governmental agencies in the Kurdistan Region 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.

Outlook for the year 2010

ShaMaran's operational activities in 2010 will focus on acquiring seismic in the Pulkhana, Arbat and Block K42, and on commencing in the fourth quarter of 2010 the drilling of an exploration / appraisal well located in the Pulkhana Block. The outlook for the year for the three blocks in Kurdistan is as follows:

Pulkhana block

A total of 250 km of 2D seismic will be acquired in the Block. The seismic acquisition program commenced in March 2010 and is expected to be completed by the end of April 2010. Processing and interpretation of the acquired seismic data should be completed by the end of the second quarter 2010. The data will be used to identify the resource potential in the block and location of the exploration / appraisal well to be drilled on the Pulkhana Block.

The company plans to commence the drilling of its first well in the Pulkhana block in the fourth quarter of 2010. Procurement activities to enable the Company to achieve this have already commenced.

Arbat Block

A total of 350 km of 2D seismic will be acquired in the Block. The seismic acquisition program will be completed by the end of the third quarter 2010. Processing and interpretation of the acquired seismic data should be completed by the end of 2010. The data will be used to identify the resource potential in the Block and location of the future exploration wells in the Block.

Block K42

A total of 200 km of 2D seismic will be acquired in the Block. The seismic acquisition will be completed by the end of the second quarter 2010. Processing and interpretation of the acquired seismic data should be completed by the third quarter of 2010. Based on the results of the seismic data acquired, the Company will decide on whether to exercise its option to enter into a Production Sharing Contract. A decision on the exercise of the option could be taken by the end of the year or in the first quarter of 2011.

Budget

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

General

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

Forward-Looking Statements

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

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