



ShaMaran Petroleum Corp
Financial Report (unaudited)
For the three months ended March 31, 2013

The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of the management of the company. The company's independent auditor has not performed a review of these financial statements.

SHAMARAN PETROLEUM CORP.

MANAGEMENT DISCUSSION AND ANALYSIS

For the three months ended March 31, 2013

(Expressed in United States Dollars unless otherwise indicated)

Management's discussion and analysis ("MD&A") of the financial and operating results of ShaMaran Petroleum Corp. ("ShaMaran" together with its subsidiaries the "Company") is prepared as of May 13, 2013. The MD&A should be read in conjunction with the unaudited condensed interim consolidated financial statements for the three months ended March 31, 2013 together with the accompanying notes.

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. Unless otherwise stated herein all currency amounts indicated as "\$" in this MD&A are expressed in thousands of United States Dollars.

Overview

ShaMaran is a Canadian-based oil and gas company with a 20.1% direct interest in the Atrush petroleum property located in Kurdistan in Northern Iraq ("Kurdistan"). The Company is currently in the pre-production stages of its appraisal and development program relating to the Atrush oil discovery on this petroleum property. ShaMaran trades on the TSX Venture Exchange and the NASDAQ OMX First North Exchange (Stockholm) under the symbol "SNM".

Highlights

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

Operations in Kurdistan

The Company holds a 20.1% direct interest in the Atrush Block petroleum property which is located in Kurdistan in the northern extension of the Zagros Folded Belt adjacent to several major oil discoveries. The area is currently undergoing a major exploration and development campaign by internationally recognised mid to large sized oil companies.

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

Atrush Block

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

In August 2010 the Company acquired a 33.5% shareholding in General Exploration Partners Inc ("GEP") which then held an 80% working interest in the Atrush Block PSC, with the remaining 20% third party interest ("TPI") being held by the KRG. In October 2010 Marathon Oil Corporation ("Marathon") was assigned the 20% TPI in the PSC. On December 31, 2012 GEP sold a 53.2% direct interest in the Atrush Block to TAQA Atrush B.V. ("TAQA"), a subsidiary of Abu Dhabi National Energy Company PJSC, who also assumed from GEP the operatorship of the Block, and repurchased the entire 66.5% shareholding which Aspect held in GEP, leaving the Company with a 100% shareholding interest in GEP which then held a 26.8% direct interest in the PSC. The Company's direct interest in the PSC was 20.1% after the KRG exercised its option to participate, explained in the following paragraph.

On March 12, 2013 the Contractor entities to the Atrush Block PSC were notified by the KRG that it had exercised its option to acquire a 25% Government Interest in accordance with the provisions of the Atrush Block PSC. The KRG now participates as a Contractor Entity with a 25% undivided interest in the petroleum operations and all the other rights, duties, obligations and liabilities of the Contractor in the PSC and becomes liable for its share of the petroleum costs incurred on or after the first commercial declaration date.

Fiscal terms under the PSC include a 10% royalty, a variable profit split, based on a percentage share to the KRG and a capacity building payment equal to 30% of profit oil (produced oil, less royalty and cost oil) to be paid to the KRG. GEP has the right to recover costs using up to 40% of the available oil (produced oil less royalty oil) and 55% of the produced gas.

GEP acquired 143 km of 2D seismic data over the Atrush Block in 2008. The first exploration well was spudded on October 5, 2010 and a total depth of 3,400 meters was reached on January 21, 2011. A comprehensive well testing program consisting of ten drill stem tests ("DSTs") commenced on January 30, 2011 and was completed on April 3, 2011. Following notification to the KRG of a major Jurassic oil discovery on April 4, 2011 GEP submitted an Appraisal Work Program consisting of 3D seismic, appraisal wells and studies and a possible installation of an extended test facility to conduct production testing in the field.

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

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

In September 2012 the drilling rig was moved from the Atrush-2 well to the Atrush-1 discovery well drilled in 2011. A workover on this well was completed in November 2012.

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

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

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

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

Selected quarterly information

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

(In \$000s, except per share data)

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

Summary of principal changes in first quarter information

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

Results of continuing operations

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

General and administrative expense

In \$000

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

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

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

Share based payments expense

In \$000

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

The share based payments expense results from the vesting of stock options granted in the years 2010 and 2011. No stock options were granted during the year ended December 2012 (year 2011: 25,000 and year 2010: 1,390,000). The Company uses the fair value method of accounting for stock options granted to directors, officers, employees and consultants whereby the fair value of all stock options granted is recorded as a charge to operations. The fair value of common share options granted is estimated on the date of grant using the Black-Scholes option pricing model.

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

Depreciation and amortisation

In \$000

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

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

Share of loss of associate*In \$000***Three months ended March 31,
2013** **2012**

Loss from investment in associate	-	66
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The loss from investment in associate in the three months ended March 31, 2012 related to the Company's pro-rata portion of the net income of GEP in conducting petroleum operations on the Atrush Block in Kurdistan. Following the acquisition of control of GEP by the Company in December 2012 the Company is required to now consolidate GEP's financial results and position in the year 2013 and therefore this interest is no longer reported as an investment in associate.

Relinquishment costs*In \$000***Three months ended March 31,
2013** **2012**

Relinquishment fees	-	25,000
Costs to wind up Pulkhana and Arbat operations	-	732
Total relinquishment costs	-	25,732

The relinquishment costs incurred in the first three months of the year 2012 related to the Pulkhana and Arbat Block PSCs, to which the Company was previously a party, and which were relinquished to the KRG under two separate agreements signed on January 17, 2012. Under the terms of the agreements to the Company paid to the KRG in January 2012 a total of \$25 million in fees which relieved the Company of all further obligations under the PSCs, including its remaining minimum financial commitments under the first exploration sub periods which were \$50 million in total prior to relinquishing the PSCs. These fees are non-recoverable and were therefore expensed together with all costs associated with winding up operations on these blocks.

Impairment loss*In \$000***Three months ended March 31,
2013** **2012**

Write down of inventory to net realizable value	-	313
Recovery of impairment loss on PP&E	-	(65)
Impairment loss	-	248

The impairment loss incurred in the first three months of the year 2012 related to relinquishment of the Pulkhana and Arbat Block PSCs. The write down of inventory in the first quarter of 2012 was primarily due to the liquidation and restocking of certain drilling inventories which will no longer be used in the Pulkhana and Arbat Block drilling programs due to their cancellation. The recovery of impairment on property plant and equipment ("PP&E") was due to changes in previous estimates of net realizable value which have occurred in the course of liquidating assets relating to the relinquished blocks.

Finance income*In \$000*

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

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

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

Income tax expense*In \$000*

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

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

Results of discontinued operations

The main components of discontinued operations are explained as follows:

Expenses*In \$000*

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

The decrease in fees and expenses in the first quarter 2013 relative to the amounts incurred in the first quarter of the year 2012 is due to the reduction in activity associated with the Company's United States based operations following the sale in 2009 of substantially all of the properties located there. The professional and general fees which the Company continues to incur are related to the decommissioning and windup of its remaining interests in the United States.

Off-balance sheet arrangements

The Company has no off-balance sheet arrangements.

Outstanding share data

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

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

The Company has no warrants outstanding.

Related party transactions

In \$000

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

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

Mile High Holdings Ltd. is a private corporation associated with a shareholder of the Company which has provided transportation services to the Company in relation to its fundraising activities.

McCullough O'Connor Irwin LLP is a law firm in which an officer of the Company is a partner which has provided legal services to the Company.

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

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

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

Liquidity and capital resources

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

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

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

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

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

The share based payments reserve increased by \$1 in the first quarter of 2013 (2012: decrease of \$2) due to share based payments expense of \$1 incurred during the period. There were no stock options exercised during this period (2012: nil). When options are granted the Black-Scholes option value method is used to calculate a value for the stock options. When the options are exercised the applicable amounts of share based payments are transferred from the share based payments reserve to share capital.

The Company does not currently generate revenues and corresponding cash flows from its oil exploration and development operations. The Company has relied upon the issuance of common shares, and proceeds from asset sales and loans to finance its ongoing oil exploration, development and acquisition activities. The Company believes that based on the forecasts and projections they have prepared and a number of financing initiatives which are being pursued the Company and its subsidiaries will have resources sufficient to satisfy contractual obligations and commitments under agreed work programs. Although the Company is confident that it will be able to raise sufficient funds there is no assurance at the date these financial statements were approved that these financing initiatives will be successful. Continuing operations are dependent on discovery of economic oil and gas reserves and ultimately on the attainment of profitable operations.

Commitments

Atrush Block Production Sharing Contract ("PSC")

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

Under the terms of the PSC, development period is for 20 years with an automatic right to a five year extension and the possibility to extend for an additional five years. The PSC requires the Contracting companies to fund certain training and environmental assistance projects over the development period. All qualifying petroleum costs incurred by the Contractor shall be recovered from a portion of available petroleum production, defined under the terms of the PSC. All modifications to the PSC are subject to the approval of the KRG. The Company is responsible for its pro-rata share of the costs incurred in executing the development work program on the Atrush Block which commenced in November 2012.

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

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

Financial Instruments

The Company's financial instruments consist of cash, cash equivalents, short-term investments, accounts receivable, accounts payable, accrued expenses and net payable to joint venture partner.

Cash, cash equivalents and short-term investments are designated as held for trading and are therefore carried at fair value, with unrealized gains or losses recorded in interest income.

The fair values of cash, cash equivalents, accounts receivable, accounts payable, accrued expenses and net payable to joint venture partner approximate carrying values because of the short-term nature of these instruments. The fair values of short-term investments are determined directly by reference to quoted market prices.

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

Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company manages its credit risk through monitoring counterparty ratings and credit limits. The Company is mainly exposed to credit risk on its cash and cash equivalents and accounts receivable.

To manage this risk the Company maintains its excess cash on account in instruments having a minimum credit rating of R-1 (mid) or better (as measured by Dominion Bond Rate Services) or the equivalent thereof according to a recognized bond rating service.

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

Liquidity Risk

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

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

Market Risk

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

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

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

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

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

Risks and Uncertainties

The majority of ShaMaran's assets are located in Kurdistan. ShaMaran operates in areas which are under foreign governmental sovereignty and is therefore subject to political, economic, and other uncertainties associated with foreign operations, which include (but are not limited to) the exposure of the Company to changes in general government policies and legislation, change in the energy policies or in their administration, changes in fiscal terms of a production sharing contract with the government, inability to export the petroleum produced under contract, adverse determinations or rulings by governmental authorities, nationalization, currency fluctuations and devaluations, as well as risks of loss due to civil strife, acts of war, guerrilla activities and insurrections.

Political Issues

The political and security situation in Iraq is not settled and is volatile. There are outstanding political issues and differences between the various political factions in Iraq. These differences could adversely impact ShaMaran's interests in Kurdistan. In addition, certain borders of Kurdistan remain the subject of final determination, the result of which may have an adverse effect on ShaMaran's assets.

Uncertainty of title

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

Legislative Issues

All contracts in Kurdistan are issued under the Oil and Gas Law of The Kurdistan Region - Iraq. No federal Iraqi legislation has been enacted by the Iraq Council of Ministers (Cabinet) and Council of Representatives (Parliament). The lack of legislation, or the enactment of federal legislation contradictory to Kurdistan Region legislation, could have a material adverse impact on ShaMaran's interests in the region.

Marketing, Markets and Transportation

The export of oil and gas from Kurdistan remains subject to uncertainties which could have an adverse impact on ShaMaran's ability to export and market such oil and gas. Further, ShaMaran's ability to market its oil and gas may also depend upon its ability to secure transportation and delivery, in view of related issues such as the proximity of its potential production to pipelines and processing facilities. Potential government regulation relating to price, quotas and other aspects of the oil and gas business could also have an adverse impact.

Exploration, Development and Production Risks

Oil and gas operations involve geological, technical and commercial risks. ShaMaran's success will depend on its ability to find, appraise, develop and commercially produce oil and gas resources and reserves. Future oil and gas exploration may involve risks relating to dry holes, wells which do not produce sufficient petroleum to return a profit after drilling, operating and other costs. In addition, operations can be effected by drilling hazards, environmental damage, and other field operating conditions which could adversely affect production and increase the cost of operations. Diligent operations can contribute to maximizing production rates over time but production delays and declines from normal field operating conditions cannot be eliminated and can adversely affect revenue and cash flow levels.

Project Risks

ShaMaran's ability to execute projects and market oil and gas will depend upon numerous factors beyond ShaMaran's complete control. Factors such as obtaining approvals from relevant authorities, issues relating to security in the area of operation, adverse legislation in Kurdistan and/or Iraq, the regulation of the oil and gas industry by various levels of government and governmental agencies in Kurdistan and/or Iraq could adversely impact the execution of ShaMaran's projects.

Substantial Capital Requirements

ShaMaran anticipates making substantial capital expenditures in the future for the acquisition, exploration, development and production of oil and gas reserves. ShaMaran's results will impact its access to the capital necessary to undertake or complete future drilling and development programs. ShaMaran's ability to access the equity or debt markets in the future may be affected by any prolonged market instability. There can be no assurance that debt or equity financing, or future cash (if any) generated by operations, would be available or sufficient to meet these requirements or for other corporate purposes or, if debt or equity financing is available, that it will be on terms acceptable to ShaMaran. The inability of ShaMaran to access sufficient capital for its operations could have a material adverse effect on ShaMaran's financial condition, results of operations and prospects.

Additional Funding Requirements

ShaMaran's cash balances will not be sufficient to fund its ongoing activities. ShaMaran will require additional financing in order to carry out its oil and gas acquisition, exploration and development activities. Failure to obtain such financing on a timely basis could cause ShaMaran to forfeit its interest in certain properties, miss certain acquisition opportunities and reduce or terminate its operations. ShaMaran's ability to access the equity or debt markets in the future may be affected by any prolonged market instability.

Dilution

ShaMaran may make future acquisitions or enter into financings or other transactions involving the issuance of securities of ShaMaran which may be dilutive to the existing shareholders.

Accounting Policies and Critical Accounting Estimates

Use of Estimates

The consolidated financial statements of the Company have been prepared by management using International Financial Reporting Standards ("IFRS"). In preparing financial statements, management makes informed judgments and estimates that affect the reported amounts of assets and liabilities as of the date of the financial statements and affect the reported amounts of revenues and expenses during the period. Specifically, estimates were utilized in calculating depletion, asset retirement obligations, fair values of assets on acquisition of control, share-based payments, amortisation and impairment write-downs. Actual results could differ from these estimates and differences could be material.

Accounting for Oil and Gas Operations

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

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

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

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

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

Producing properties and significant unproved properties are assessed annually, or more frequently as economic events dictate, for potential impairment. The impairment test is initially based on undiscounted future cash flows from proved and risk adjusted probable reserves. If an impairment is identified, fair value is calculated as the present value of estimated expected discounted cash flows from proved and risk-adjusted probable reserves. Any impairment loss is the difference between the carrying value of the petroleum property and its fair value. Therefore, if it is determined that the estimated fair value is less than the net carrying amount, a write-down to the oil and gas property's fair value is recognized during the period, with a charge to earnings.

Estimates of future cash flows used in the evaluation of impairment of assets are performed based on risk assessments on field and reservoir performance and include assumptions regarding commodity prices, discount rates and future costs.

A substantial portion of the Company's exploration and development activities are conducted jointly with others.

The estimation of reserves and resources is subjective. Forecasts are based on engineering data, future prices, expected future rates of production and the timing of capital expenditures, all of which are subject to uncertainties and interpretations.

There were no changes in the first quarter of 2013 to the resources previously reported by the Company as at December 31, 2012.

Outlook

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

Atrush Block

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

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

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

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

New Ventures

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

Budget

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

General

The security situation in Kurdistan remains stable with no major reported incidents. The region is seeing a rapid development in infrastructure and a significant increase in the availability of oil and gas services in the country. A number of major international oil companies, including Exxon, Chevron, Total and Gazprom, have acquired properties in Kurdistan over the last year. In addition, there have been a number of recent and significant discoveries in this region now undergoing appraisal and development.

Forward-Looking Statements

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

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

Additional Information

Additional information related to the Company is available on SEDAR at www.sedar.com and on the Company's website at www.shamaranpetroleum.com.

SHAMARAN PETROLEUM CORP.
Condensed Interim Consolidated Statement of Comprehensive Income (unaudited)
(Expressed in thousands of United States Dollars, except for per share data)

	Note	For the three months ended March 31,	
		2013	2012
Expenses from continuing operations			
General and administrative expense	6	(450)	(384)
Depreciation and amortisation expense		(19)	(49)
Share based payments (expense) / recovery	18	(1)	2
Share of loss of associate		-	(66)
Impairment loss	8	-	(248)
Relinquishment costs	7	-	(25,732)
Loss before finance items and income tax expense		(470)	(26,477)
Finance income	9	50	391
Total finance income		50	391
Loss before income tax expense		(420)	(26,086)
Income tax expense	10	(40)	(24)
Loss from continuing operations		(460)	(26,110)
Discontinued operations			
Loss from discontinued operations	11	(20)	(37)
Loss for the period		(480)	(26,147)
Other comprehensive (loss) / income :			
<i>Items that may be reclassified subsequently to net income:</i>			
Currency translation differences		(88)	33
Total other comprehensive (loss) / income		(88)	33
Total comprehensive loss for the period		(568)	(26,114)
Loss in dollars per share:			
Continuing operations			
Basic and diluted		-	(0.03)
Discontinued operations			
Basic and diluted		-	-
Continuing and discontinued operations			
Basic and diluted		-	(0.03)

The accompanying notes are an integral part of these consolidated financial statements.

SHAMARAN PETROLEUM CORP.
Condensed Interim Consolidated Balance Sheet (unaudited)
(Expressed in thousands of United States Dollars)

	Note	At March 31, 2013	At December 31, 2012
Assets			
Non-current assets			
Intangible assets	12	305,911	303,549
Property, plant and equipment	13	232	257
		306,143	303,806
Current assets			
Other current assets		395	127
Inventories	15	198	198
Other receivables		46	204
Cash and cash equivalents		35,300	41,216
		35,939	41,745
Assets associated with discontinued operations	11	1	3
Total assets		342,083	345,554
Liabilities			
Current liabilities			
Accounts payable and accrued expenses	16	4,134	7,027
Current tax liabilities		63	90
Deferred liability	14	5,000	5,000
		9,197	12,117
Non-current liabilities			
Provisions		120	120
		120	120
Liabilities associated with discontinued operations	11	1,957	1,941
Total liabilities		11,274	14,178
Equity			
Share capital	17	534,068	534,068
Share based payments reserve		3,837	3,836
Cumulative translation adjustment		(80)	8
Accumulated deficit		(207,016)	(206,536)
Total equity		330,809	331,376
Total liabilities and equity		342,083	345,554

The accompanying notes are an integral part of these consolidated financial statements.

The financial statements were approved by the Board of Directors and authorized for issue on May 13, 2013 and signed on its behalf:

/s/Cameron Bailey
J. Cameron Bailey, Director

/s/Keith Hill
Keith C. Hill, Director

SHAMARAN PETROLEUM CORP.
Condensed Interim Consolidated Statement of Changes in Equity (unaudited)
(Expressed in thousands of United States Dollars)

	Share capital	Share based payments reserve	Cumulative translation adjustment	Accumulated deficit	Total
Balance at January 1, 2012	533,349	3,828	(18)	(411,900)	125,259
Total comprehensive loss for the period	-	-	33	(26,147)	(26,114)
Transactions with owners in their capacity as as owners:					
Recovery of share based payments expense	-	(2)	-	-	(2)
	-	(2)	-	-	(2)
Balance at March 31, 2012	533,349	3,826	15	(438,047)	99,143
Balance at January 1, 2013	534,068	3,836	8	(206,536)	331,376
Total comprehensive loss for the period	-	-	(88)	(480)	(568)
Transactions with owners in their capacity as as owners:					
Share based payments expense	-	1	-	-	1
	-	1	-	-	1
Balance at March 31, 2013	534,068	3,837	(80)	(207,016)	330,809

The accompanying notes are an integral part of these consolidated financial statements.

SHAMARAN PETROLEUM CORP.
Condensed Interim Consolidated Statement of Cash Flows (unaudited)
(Expressed in thousands of United States Dollars)

	Note	For the three months ended March 31,	
		2013	2012
Operating activities			
Net loss from continuing operations		(460)	(26,110)
Adjustments for:			
Interest income	9	(9)	(24)
Foreign exchange gain	9	(41)	(367)
Depreciation and amortisation expense		19	49
Income tax		(27)	(2)
Impairment loss	8	-	248
Share based payments expense / (recovery)	18	1	(2)
Share of loss of associate		-	66
Changes in trade and other receivables		158	(1,242)
Changes in other current assets		(268)	270
Changes in inventories		-	1,302
Changes in accounts payable and accrued expenses		(2,893)	(15,572)
Cash used in discontinued operations		(2)	(217)
Net cash outflows to operating activities		(3,522)	(41,601)
Investing activities			
Purchases of intangible assets		(2,363)	(2,432)
Purchases of property, plant and equipment		-	194
Interest received on cash deposits		9	24
Net cash outflows to investing activities		(2,354)	(2,214)
Financing activities			
Net cash flows from financing activities		-	-
Effect of exchange rate changes on cash and cash equivalents		(40)	400
Change in cash and cash equivalents		(5,916)	(43,415)
Cash and cash equivalents, beginning of the period		41,216	49,085
Cash and cash equivalents, end of the period		35,300	5,670

The accompanying notes are an integral part of these consolidated financial statements.

SHAMARAN PETROLEUM CORP.
Notes to the Condensed Interim Consolidated Financial Statements (unaudited)
For the three months ended March 31, 2013
(Expressed in thousands of United States Dollars unless otherwise stated)

1. General Information

ShaMaran Petroleum Corp. (“ShaMaran” and together with its subsidiaries the “Company”) is incorporated under the Business Corporations Act, British Columbia, Canada. The address of the registered office is Suite 2600 Oceanic Plaza, 1066 West Hastings Street, Vancouver, British Columbia V6E 3X1. The Company’s shares trade on the TSX Venture Exchange and NASDAQ OMX First North Exchange (Stockholm) under the symbol “SNM”.

The Company is engaged in the business of oil and gas exploration and development, and is currently in the pre-production stages of an exploration and development campaign in respect of a petroleum property located in the Kurdistan Region of Iraq (“Kurdistan”).

2. Basis of preparation and summary of significant accounting policies

The unaudited condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) including IAS 34 Interim financial reporting. The condensed interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2012, which have been prepared in accordance with IFRS as issued by the IASB. The accounting policies and methods of application adopted are consistent with those disclosed in note 3 of the Company’s audited consolidated financial statements for the year ended December 31, 2012 except as described in note 3 below.

These condensed interim consolidated financial statements have been prepared on the going concern basis which assumes that the Company will be able to realize into the foreseeable future its assets and liabilities in the normal course of business as they come due. The ability of the Company to continue as a going concern and to successfully carry out its business plan is primarily dependent upon the continued support of its shareholders, the discovery of economically recoverable reserves, the resolution of remaining political disputes in Iraq and the ability of the Company to obtain additional financing to develop reserves.

In the absence of current production revenues, the Company is currently dependent upon its existing financial resources, which include \$35.3 million of cash and cash equivalents as at March 31, 2013, to satisfy its obligations and finance its exploration and development program in Kurdistan. Failure to meet exploration and development commitments could put the related license interests at risk of forfeiture. Refer also to note 19.

The Company believes that based on the forecasts and projections they have prepared and a number of financing initiatives which will be pursued as required the Company and its subsidiaries will have sufficient resources to satisfy its contractual obligations and commitments under the agreed work program over the next 12 months. Although the Company is confident that it will be able to raise sufficient funds there is no assurance at the date these financial statements were approved that these financing initiatives will be successful. The lack of sufficient committed funding for the next 12 months indicates a material uncertainty which may cast significant doubt over the Company’s ability to continue as a going concern. These condensed interim consolidated financial statements do not include the adjustments that would result if the Company is unable to continue as a going concern.

SHAMARAN PETROLEUM CORP.
Notes to the Condensed Interim Consolidated Financial Statements (unaudited)
For the three months ended March 31, 2013
(Expressed in thousands of United States Dollars unless otherwise stated)

3. Changes in accounting policies

The Company has adopted effective January 1, 2013 on a prospective basis the following new and revised IFRS, along with any consequential amendments. These changes were made in accordance with the applicable transitional provisions.

IFRS 10: Consolidated Financial Statements, replaces the guidance on control and consolidation in IAS 27, Consolidated and Separate Financial Statements, and SIC-12, Consolidation – Special Purpose Entities. IFRS 10 requires consolidation of an investee only if the investor possesses power over the investee, has exposure to variable returns from its involvement with the investee and has the ability to use its power over the investee to affect its returns. Detailed guidance is provided on applying the definition of control. The accounting requirements for consolidation have remained largely consistent with IAS 27. The Company assessed its consolidation conclusions on January 1, 2013 and determined that the adoption of IFRS 10 did not result in any change in the consolidation status of any of the interests currently held in other entities.

IFRS 12: Disclosure of Interests in Other Entities, aggregates and amends disclosure requirements included within other standards to create a comprehensive disclosure standard to address the requirements for subsidiaries, joint arrangements and associates including the reporting entity's involvement with other entities. It also includes the requirements for unconsolidated structured entities (i.e. special purpose entities). The adoption of IFRS 12 will result in incremental disclosures in the Company's annual consolidated financial statements.

IFRS 13: Fair Value Measurement, provides a single framework for measuring fair value. The measurement of the fair value of an asset or liability is based on assumptions that market participants would use when pricing the asset or liability under current market conditions, including assumptions about risk. Under IFRS 13 the fair value of a liability must reflect the effect of nonperformance risk, which includes an entity's own credit risk. The adoption of IFRS 13 did not require any adjustments to the valuation techniques used by the Company to measure fair value and did not result in any measurement adjustments as at January 1, 2013. Additional information on fair value measurement has been disclosed in note 20.

The Company has adopted the amendments to IAS 1, Presentation of Financial Statements which require the Company to group other comprehensive income items by those that will be reclassified subsequently to profit or loss and those that will not be reclassified. These changes did not result in any adjustments to other comprehensive income or comprehensive income.

4. Critical accounting judgments and key sources of estimation uncertainty

Areas of critical accounting judgments that have the most significant effect on the amounts recognized in the financial statements are disclosed in Note 4 of the Company's audited consolidated financial statements the year ended December 31, 2012.

5. Business and geographical segments

The Company operates in one business segment, the exploration and development of oil and gas assets, in one geographical segment, the Kurdistan Region of Iraq. As a result, in accordance with *IFRS 8 Operating Segments*, the Company has presented its financial information collectively for one operating segment. Refer to note 11 for disclosure of the Company's discontinued operations.

SHAMARAN PETROLEUM CORP.
Notes to the Condensed Interim Consolidated Financial Statements (unaudited)
For the three months ended March 31, 2013
(Expressed in thousands of United States Dollars unless otherwise stated)

6. General and administrative expense

	For the three months ended March 31,	
	2013	2012
General and administrative expense incurred	1,420	1,552
General and administrative expense capitalized as E&E assets	(970)	(1,168)
General and administrative expense	450	384

The Company capitalizes as E&E assets general and administrative expense supporting E&E activities which relate to direct interests held in production sharing contracts. Refer also to note 12.

7. Relinquishment costs

	For the three months ended March 31,	
	2013	2012
Relinquishment fees	-	25,000
Costs to windup Pulkhana and Arbat operations	-	732
Total relinquishment costs	-	25,732

On January 17, 2012 the Company signed agreements with the KRG to relinquish the Pulkhana and Arbat Block PSCs. On January 25, 2012 the Company paid a total of \$25 million to the KRG in accordance with the terms of the agreements relieving the Company of all further obligations under the PSCs including its remaining minimum financial commitments. Refer also to note 12.

8. Impairment loss

	For the three months ended March 31,	
	2013	2012
Write down drilling inventory to net realizable value	-	313
Recovery of impairment loss on property, plant and equipment	-	(65)
Impairment loss	-	248

The impairment loss in the three months ended March 31, 2012 related to the Pulkhana and Arbat production sharing contract relinquishments. Refer also to notes 12, 13 and 15.

9. Finance income

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

SHAMARAN PETROLEUM CORP.
Notes to the Condensed Interim Consolidated Financial Statements (unaudited)
For the three months ended March 31, 2013
(Expressed in thousands of United States Dollars unless otherwise stated)

10. Taxation

	For the three months ended March 31,	
	2013	2012
Income tax expense from continuing operations	40	24

The Company's income tax expense relates to a provision for income tax on service income generated in Switzerland, and is calculated at the effective tax rate of 25% prevailing in this jurisdiction.

11. Discontinued operations

During May of 2009 the Company sold to a third party substantially all of its oil and gas properties located in the United States in the Gulf of Mexico. The results of the discontinued operations included in the consolidated statement of comprehensive income are as follows:

	For the three months ended March 31,	
	2013	2012
Expenses		
General and administrative, other	20	37
Net loss attributable to discontinued operations	20	37

The major classes of assets and liabilities included in the consolidated balance sheet are as follows:

	At March 31, 2013	At December 31, 2012
Assets		
Prepaid expenses	1	3
	1	3
Liabilities		
Trade payables and accrued expenses	371	355
Asset retirement obligation provision	1,586	1,586
	1,957	1,941
Net liabilities	1,956	1,938

The provision relates to site restoration costs pertaining to the remaining interests the Company holds in petroleum properties located in the United States. The provision was determined based on the Company's remaining net ownership interest in the corresponding wells and facilities, estimated costs to abandon and reclaim the wells and facilities and the estimated timing of the costs to be incurred in future periods.

SHAMARAN PETROLEUM CORP.
Notes to the Condensed Interim Consolidated Financial Statements (unaudited)
For the three months ended March 31, 2013
(Expressed in thousands of United States Dollars unless otherwise stated)

12. Intangible assets

	Exploration and evaluation assets	Other intangible assets	Total
At January 1, 2012			
Cost	251,586	271	251,857
Accumulated amortisation	-	(160)	(160)
Impairment losses	(205,861)	-	(205,861)
Net book value	45,725	111	45,836
For the year ended December 31, 2012			
Opening net book value	45,725	111	45,836
Additions including fair value adjustment	307,022	3	307,025
Disposal	(51,571)	(1)	(51,572)
Amortisation expense	-	(88)	(88)
Adjustment to impairment losses	2,347	-	2,347
Net adjustment on currency translation	-	1	1
Net book value	303,523	26	303,549
At December 31, 2012			
Cost	507,037	280	507,317
Accumulated amortisation	-	(254)	(254)
Impairment losses	(203,514)	-	(203,514)
Net book value	303,523	26	303,549
For the three months ended March 31, 2013			
Opening net book value	303,523	26	303,549
Additions	2,371	-	2,371
Amortisation expense	-	(7)	(7)
Net adjustment on currency translation	-	(2)	(2)
Net book value	305,894	17	305,911
At March 31, 2013			
Cost	509,408	269	509,677
Accumulated amortisation	-	(252)	(252)
Impairment losses	(203,514)	-	(203,514)
Net book value	305,894	17	305,911

The impairment losses of \$203.5 million related to the decision by the Company in December 2011 to relinquish to the KRG the Pulkhana and Arbat Block PSCs and immediately suspend all operations associated with those two production sharing contracts. The Company recorded impairment losses to expense all exploration and evaluation assets, which included acquisition costs, capacity building payments to the KRG, costs of acquiring seismic data, and drilling and testing costs which were incurred by the Company on these two Blocks up to December 31, 2011. The relinquishment was completed on January 17, 2012. Refer also to notes 7 and 8.

In August 2012 the Company sold its 20% direct interest in the Taza Block resulting in the disposal of \$51.6 million in related intangible assets.

On December 31, 2012 the Company acquired control of General Exploration Partners Inc ("GEP") and, in accordance with IFRS 3 which requires the Company to record the fair value on the date of acquisition of the net identifiable assets and liabilities of GEP, recorded the addition of \$300.5 million of exploration and evaluation assets relating to the Atrush Block PSC.

The net book value of exploration and evaluation assets at March 31, 2013 relates directly to the Atrush Block in the amount of \$302.9 million (December 31, 2012: \$300.5 million) and an amount of \$3.0 million (December 31, 2012: \$3.0 million) of other costs associated with ongoing operations in Kurdistan.

SHAMARAN PETROLEUM CORP.
Notes to the Condensed Interim Consolidated Financial Statements (unaudited)
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(Expressed in thousands of United States Dollars unless otherwise stated)

Other intangible assets comprise computer software licenses. The amortisation charge is presented as part of general and administrative expenses within the Company's consolidated statement of comprehensive income.

13. Property, plant and equipment

	Oil and gas equipment	Computer equipment	Furniture and office equipment	Total
At January 1, 2012				
Cost	445	232	203	880
Accumulated depreciation	(98)	(139)	(60)	(296)
Impairment losses	(174)	(17)	(10)	(201)
Net book value	173	76	133	382
For the year ended December 31, 2012				
Opening net book value	173	76	133	382
Additions	758	-	-	758
Disposals	(781)	(9)	(14)	(804)
Depreciation expense	(31)	(62)	(32)	(125)
Impairment recovery / (loss)	46	4	(6)	44
Net adjustment on currency translation	-	-	2	2
Net book value	165	9	83	257
At December 31, 2012				
Cost	199	199	165	563
Accumulated depreciation	(29)	(190)	(82)	(301)
Impairment losses	(5)	-	-	(5)
Net book value	165	9	83	257
For the three months ended March 31, 2013				
Opening net book value	165	9	83	257
Depreciation expense	(11)	(1)	(8)	(20)
Net adjustment on currency translation	-	(1)	(4)	(5)
Net book value	154	7	71	232
At March 31, 2013				
Cost	199	191	160	550
Accumulated depreciation	(40)	(184)	(89)	(313)
Impairment losses	(5)	-	-	(5)
Net book value	154	7	71	232

The impairment losses of \$5 related to the impairment in value of certain property plant and equipment employed in the exploration operations associated with the Pulkhana and Arbat PSCs. The relinquishment of these PSCs was completed in January 2012. Refer also to note 8.

In August 2012 the Company sold its 20% direct interest in the Taza Block PSC resulting in the disposal of \$0.6 million in related property, plant and equipment.

SHAMARAN PETROLEUM CORP.
Notes to the Condensed Interim Consolidated Financial Statements (unaudited)
For the three months ended March 31, 2013
(Expressed in thousands of United States Dollars unless otherwise stated)

14. Deferred liability

The Company has recorded a deferred liability relating to the December 2012 acquisition by the Company of control of General Exploration Partners Inc (“GEP”). The Company is holding \$5 million of cash which will be paid on June 30, 2013 to Aspect Energy International, LLC (“Aspect”), subject to the satisfactory conclusion of certain closing conditions including the settlement of any GEP costs owed by Aspect. Refer also to notes 12 and 19.

15. Inventories

	At March 31, 2013	At December 31, 2012
Drilling and downhole equipment	198	198
Total inventories	198	198

16. Accounts payable and accrued expenses

	At March 31, 2013	At December 31, 2012
Trade accounts payable	495	811
Accrued expenses	3,639	5,494
Other accounts payable	-	722
Total accounts payable and accrued expenses	4,134	7,027

17. Share capital

The Company is authorized to issue an unlimited number of common shares with no par value. The Company’s issued share capital is as follows:

	Number of shares	Share capital
At January 1, 2012	807,983,860	533,349
Shares issued as equity based financing fee	3,000,000	719
At December 31, 2012	810,983,860	534,068
At March 31, 2013	810,983,860	534,608

18. Share based payments expense

The Company has an established share purchase option plan whereby a committee of the Company’s board of directors may, from time to time, grant up to a total of 10% of the issued share capital to directors, officers, employees or consultants. The number of shares under option at any specific time to any one option holder shall not exceed 5% of the issued and outstanding common shares of the Company. The term of any options granted under the plan will be fixed by the Board of Directors and may not exceed five years from the date of grant. A four month hold period may be imposed by the stock exchange from the date of grant. Vesting terms are at the discretion of the Board of Directors. All issued share options have terms of three to five years and vest over periods of up to three years. The exercise prices reflect trading values of the Company’s shares at grant date.

SHAMARAN PETROLEUM CORP.
Notes to the Condensed Interim Consolidated Financial Statements (unaudited)
For the three months ended March 31, 2013
(Expressed in thousands of United States Dollars unless otherwise stated)

Movements in the Company's share options outstanding are explained as follows:

	Number of share options outstanding	Weighted average exercise price CAD
At January 1, 2012	3,233,334	0.72
Expired	(450,000)	1.52
Forfeited	(160,000)	0.67
At December 31, 2012	2,623,334	0.59
At March 31, 2013	2,623,334	0.59
Share options exercisable:		
At December 31, 2012	2,615,001	0.59
At March 31, 2013	2,615,001	0.59

The Company recognizes compensation expense on share options granted to both employees and non-employees using the fair value method at the date of grant, which the Company records as an expense. The share based payments expense is calculated using the Black-Scholes option pricing model.

The weighted average fair value of options granted and the assumptions used in their determination are as follows:

	For the three months ended March 31, 2013	For the year ended December 31, 2012
Expected dividend yield	0%	0%
Risk-free interest rate (weighted average)	3.20%	3.20%
Expected share price volatility (weighted average)	86.94%	86.94%
Expected option life in years (weighted average)	4.12	4.12
Grant date fair value (weighted average)	CAD 0.53	CAD 0.53

Share based payments expense for the three months ended March 31, 2013 was \$1 (2012: \$2 recovery)

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore the existing models do not necessarily provide a reliable single measure of the fair value of the Company's share options.

On April 12, 2013, certain officers, directors and other eligible persons of the Company were granted a total of 5,640,000 incentive stock options which are subject to vesting provisions and are exercisable over a period of five years at an exercise price of CAD 0.36.

19. Commitments

Atrush Block Production Sharing Contract ("PSC")

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

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Under the terms of the PSC development period is for 20 years with an automatic right to a five year extension and the possibility to extend for an additional five years. The PSC requires the Contracting companies to fund certain training and environmental assistance projects over the development period. All qualifying petroleum costs incurred by the Contractor shall be recovered from a portion of available petroleum production, defined under the terms of the PSC. All modifications to the PSC are subject to the approval of the KRG. The Company is responsible for its pro-rata share of the costs incurred in executing the development work program on the Atrush Block which commenced in November 2012.

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

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

20. Financial instruments

Financial assets

The financial assets of the Company on the balance sheet dates were as follows:

	Fair value hierarchy ²	Carrying and fair values ¹	
		At March 31, 2013	At December 31, 2012
Cash and cash equivalents	Level 1	35,300	41,216
Other receivables	Level 1	46	204
Other current assets, excluding prepaid expense	Level 1	1	-
Total financial assets		35,347	41,420

Financial assets classified as receivables and other current assets are initially recognized at fair value and are subsequently measured at amortized cost using the effective interest method less any provision for impairment.

Financial liabilities

The financial liabilities of the Company on the balance sheet dates were as follows:

	Fair value hierarchy ²	Carrying and fair values ¹	
		At March 31, 2013	At December 31, 2012
Deferred liability	Level 1	5,000	5,000
Accounts payable and accrued expenses	Level 1	4,134	7,027
Financial liabilities associated with discontinued operations	Level 1	1,957	1,941
Long term liabilities – provision for decommissioning costs	Level 2	120	120
Current tax liabilities	Level 1	63	90
Total financial liabilities		11,274	14,178

Financial liabilities are initially recognized at the fair value of the amount expected to be paid and are subsequently measured at amortized cost using the effective interest rate method.

¹The carrying amount of the Company's financial assets and liabilities approximates their fair value and none of which are past due.

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² *Fair value measurements*

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and established a fair value hierarchy of three levels to classify the inputs to valuation techniques used to measure fair value:

- Level 1: fair value measurements are based on unadjusted quoted market prices;
- Level 2: fair value measurements are based on valuation models and techniques where the significant inputs are derived from quoted prices or indices;
- Level 3: fair value measurements are based on unobservable information.

The Company recognizes transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. There were no transfers between levels of the fair value hierarchy during the three month period ended March 31, 2013.

Valuation techniques

The Company uses a discounted cash flow valuation model to determine the provision for decommissioning costs which includes the Company's estimates and assumptions in determining its share of costs related to decommissioning of assets, the timing of those costs, and the relevant rates of interest and inflation.

21. Related party transactions

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

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

Mile High Holdings Ltd. is a private corporation associated with a shareholder of the Company which has provided transportation services to the Company in relation to its fundraising activities.

McCullough O'Connor Irwin LLP is a law firm in which an officer of the Company is a partner which has provided legal services to the Company.

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

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

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

SHAMARAN PETROLEUM CORP.

DIRECTORS	CORPORATE INFORMATION
<p>Keith C. Hill Director, Chairman Nairobi, Kenya</p> <p>Pradeep Kabra Director, President & Chief Executive Officer Geneva, Switzerland</p> <p>Brian D. Edgar Director Vancouver, British Columbia</p> <p>Gary S. Guidry Director Calgary, Alberta</p> <p>Alexandre Schneider Director Anieres, Switzerland</p> <p>J. Cameron Bailey Director Calgary, Alberta</p>	<p>CORPORATE OFFICE 885 West Georgia Street Suite 2000 Vancouver, British Columbia V6C 3E8 Telephone: +1-604-689-7842 Facsimile: +1-604-689-4250 Website: www.shamaranpetroleum.com</p> <p>OPERATIONS OFFICE 5 Chemin de la Pallanterie 1222 Vézenaz Switzerland Telephone: +41-22-560-8600 Facsimile: +41-22-560-8601</p> <p>BANKER HSBC Bank Canada Vancouver, British Columbia</p> <p>INDEPENDENT AUDITORS PricewaterhouseCoopers LLP London, UK</p> <p>TRANSFER AGENT Computershare Trust Company of Canada Vancouver, British Columbia</p> <p>STOCK EXCHANGE LISTINGS TSX Venture Exchange and NASDAQ OMX First North Exchange Trading Symbol: SNM</p> <p>INVESTOR RELATIONS Sophia Shane Vancouver, British Columbia</p>
OFFICERS	
<p>Brenden Johnstone Chief Financial Officer Geneva, Switzerland</p> <p>Kevin E. Hisko Corporate Secretary Vancouver, British Columbia</p>	