



ShaMaran Petroleum Corp

Financial Report (unaudited)

For the three months ended March 31, 2014

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, 2014

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 with an effective date of May 15, 2014. The MD&A should be read in conjunction with the unaudited condensed interim consolidated financial statements for the three months ended March 31, 2014 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 ("USD").

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 stage of its appraisal and development program relating to the Atrush oil discovery on this petroleum property. ShaMaran trades on the TSX Venture Exchange and the NASDAQ OMX First North Exchange (Stockholm) under the symbol "SNM".

HIGHLIGHTS

- On April 16, 2014 the Company announced the test results of the Atrush-4 appraisal and development well which was drilled to a total depth of 2,916 metres. Three separate cased hole drill stem tests were conducted in the Jurassic reservoir with the highest reported rates totalling 9,059 bopd of 27-28 API from two of the tests. None of the tests produced formation water. Down hole samples for PVT analysis and surface samples for oil assay studies were taken. Well testing operations were completed on April 7, 2014. Atrush-4 is a deviated well from the Atrush-1 well pad with the bottom hole location approximately 2.2 km SE of the surface location. Atrush-4 has been suspended as a Phase 1 producer.
- The Company reported on March 13, 2014 the initial recognition of reserves (property gross of 58 MMbo 2P) as well as updates to estimated contingent resources (property gross of 518 MMboe 2C) and prospective resources (property gross unrisksed best estimate of 245 MMboe) as of December 31, 2013 for the Atrush block. The reserves and resources estimates were provided by McDaniel & Associates Consultants Ltd, the Company's independent qualified resources evaluator.
- At March 31, 2014 the Company had a cash balance of \$122 million and working capital of \$114 million.

OPERATIONS

Summary of Current Operations in Kurdistan

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

The Atrush-4 ("AT-4") appraisal and development well was spudded on October 20, 2013 and reached a total depth ("TD") of 2,916 metres after 94 days. The well has been drilled up to a maximum hole angle of 82 degrees targeting the untested up dip section of the Atrush accumulation. Testing operations on AT-4 were completed on April 7, 2014, and the well is currently suspended as future producer.

The drilling rig is currently being moved from AT-4 to Chiya Khere ("CK-5")¹, which will be drilled from the same surface location as Atrush-1 ("AT-1"). The well is expected to spud in late May, and will target the reservoir approximately 400 metres southwest of the AT-1 location. There are plans to mobilise a second rig by mid June to drill the Chiya Khere 6 ("CK-6") Phase 2 area appraisal well. CK-6 will be drilled updip from the Atrush 3 ("AT-3") surface location. Following operations on CK-6, AT-3 will be re-entered and retested using a revised testing configuration. Work is also underway to prepare access to the planned Chiya Khere 7 ("CK-7") well location.

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

Orders for the production modules for the 30,000 barrels of gross oil per day ("bopd") Phase 1 facilities were finalised in December 2013. Civil engineering at the selected facilities site commenced in early 2014.

Plans are being put in place to implement a single dedicated feeder pipeline between Atrush and tie-in point at Kurdistan Crude Pipeline pumping station #2 ("KCP2") at kilometre 92 on the KRG export pipeline. The definitive route is being finalised. The pipeline front end engineering design ("FEED") has been awarded to KAR Group/ILF Consulting Engineers.

Location and Operational History

The Atrush Block is located approximately 85 kilometres northwest of Erbil, the capital of the Kurdistan Region of Iraq, and is 269 square kilometres in area. To the south of the Atrush block is the Shaikan Block which is currently being developed by Gulf Keystone Petroleum Ltd. Immediately to the north of the Atrush Block is the Sarsang block where Hillwood International Energy has made discoveries in the Swara Tika wells. In addition MOL plc has announced an oil discovery in the Bakrman well on the Akri-Bijeel block which is to the east of and on trend with the Atrush Block. Also, on trend discoveries to the west on the Sheikh Adi and Ber Behar Blocks have been announced by Genel Energy plc. The Atrush structure contains multiple proven and potential stacked oil reservoirs in the Cretaceous, Jurassic and Triassic sections which, due to a high-degree of fracturing, have demonstrated very high production rates.

In addition to the proven Atrush Jurassic oil discovery the Atrush Block has additional upside in the Atrush hanging wall Triassic, Atrush footwall reservoirs (Cretaceous, Jurassic and Triassic), and a northern extension of the Atrush oil accumulation at multiple levels into the Swara Tika structure.

¹ Approved changes to terminology relating to the Atrush Block, effective from 2014, include well names. Following the Atrush-4 well all future wells on the Atrush block will be prefixed with "Chiya Khere" (or "CK"), rather than with "Atrush".

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 Energy International LLC ("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 is 20.1% after the KRG exercised on March 12, 2013 its option to acquire a 25% Government Interest in accordance with the provisions of the Atrush Block PSC. The KRG now participates as a Contractor Entity with a 25% undivided interest in the petroleum operations and all the other rights, duties, obligations and liabilities of the Contractor in the PSC and is 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 kilometres 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 metres was reached on January 21, 2011. A comprehensive well testing program consisting of ten drill stem tests ("DST"s) commenced on January 30, 2011 and was completed on April 3, 2011. Following notification to the KRG of a major Jurassic oil discovery on April 4, 2011 GEP submitted an Appraisal Work Program consisting of 3D seismic, appraisal wells and studies and a possible installation of an extended test facility to conduct production testing in the field.

3D seismic acquisition operations commenced on the block in July 2011 and were completed on August 11, 2012 with 3D seismic data now covering the entire Atrush block. Final processing of the complete 3D seismic survey is completed and ShaMaran has completed its mapping for all prospective levels.

The Atrush-2 ("AT-2") appraisal well was spudded on May 23, 2012 and drilled to a planned total depth of 1,750 metres in the Butmah formation ahead of schedule on July 10, 2012. The Company announced on September 13, 2012 the results of the comprehensive AT-2 well testing program which confirmed through three separate DSTs the AT-1 Jurassic oil discovery. The combined test rate for the three Jurassic 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 Jurassic reservoir. An additional two DSTs conducted in two deeper Jurassic formations confirmed them to be oil bearing and productive. GEP submitted in October 2012 to the Ministry of Natural Resources ("MNR") of Kurdistan an AT-2 Discovery Report giving notice of the additional discovery.

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

On November 7, 2012 GEP and Marathon, collectively being the Contractor under the Atrush Block PSC, submitted to the Atrush Block Management Committee a DCD with effect from November 7, 2012 under Clause 12.6 (a) of the PSC. The DCD was submitted together with an Appraisal Report covering the Atrush field. In May 2013 the Operator (TAQA) submitted a FDP to the Atrush Block Management Committee within the required 180 days following the DCD. Phase 1 of the FDP was duly approved with an effective date October 1, 2013.

The AT-3 appraisal well was spudded on March 25, 2013 and, after a sidetrack due to mechanical issues, the well reached a final drilled depth of 1,806 metres on June 23, 2013. The well encountered an estimated oil column of 286 metres in the Jurassic reservoir (to the calculated Free Water Level) and successfully extended the Atrush accumulation 6.5 kilometres further to the east, while proving producible oil 180 metres deeper than previous wells thereby reducing the uncertainty on the Oil Water Contact/Free Water Level. AT-3 is currently suspended pending planned re-entry later in 2014.

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

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

The AT-4 development well was spudded on October 20, 2013 and reached final TD of 2,916 metres on January 23, 2014 after 94 days. The well has been tested and suspended pending completion to be a Phase 1 producer.

Recent Operations and Results

Field Development Plan and Phase 1 Development

Work on the Atrush Block FDP culminated with its submission for approval to the KRG on May 6, 2013 which is, in accordance with the terms of the PSC, within 180 days after the DCD made on November 7, 2012. The FDP was presented in detail to the MNR in June 2013.

On October 7, 2013 the Company announced that Phase 1 of the FDP for the Atrush Block had been approved by the KRG. The initial 20-year Development Phase (as defined in Clause 12.9 of the PSC) commenced on the October 1, 2013. FEED studies have been completed with First Oil planned for early 2015. Phase 1 will consist of three producers (AT-2, AT-4 and CK-5) connected to a 30,000 bopd production facility. Orders for the production modules for the 30,000 Phase 1 facilities were finalised in December 2013. Civil engineering at the selected facilities site was commenced in early 2014. A completion rig is planned to be mobilised to enable the final well completions (tubing and electric submersible pump ("ESP")) to be run in the planned Phase 1 producers prior to commissioning the facilities.

Plans are being put in place to implement a single dedicated feeder pipeline between Atrush and tie-in point at KCP2 at kilometre 92 on the KRG export pipeline. The definitive route is being finalised. FEED has been awarded to KAR Group/ILF Consulting Engineers.

Reserves and Resources

The Company reports initial recognition of reserves as well as updates to estimated contingent and prospective resources for the Atrush block as at December 31, 2013 as provided by McDaniel & Associates Consultants Ltd ("McDaniel"), the Company's independent qualified resources evaluator, in accordance with standards set out in the Canadian National Instrument NI 51-101 and Canadian Oil and Gas Evaluation Handbook ("COGEH").

McDaniel estimates for reserves and resources have taken into account the results of the AT-3 well and the latest remapping based on 3D seismic and the commitment to the first phase of development as defined by the KRG approved field development plan.

For further discussion and disclosure of reserves and resources please refer also to the "Reserves and Resources" section below in this MD&A.

Atrush-4 Appraisal and Development Well

The AT-4 well has been drilled at high deviation up-dip towards the undrilled crest of the structure from the AT-1 drill pad. The well spudded on October 20, 2013 following the successful plugging and abandonment of AT-1. The well reached final TD of 2,916 metres on January 23, 2014, and was suspended as a Phase 1 producer following the testing program, which was concluded April 7, 2014, and is summarised hereafter.

AT-4 was flowed at optimised stabilised rates using an electric submersible pump ESP following a specific data gathering program for the purposes of obtaining maximum quality surface samples (for crude assay), down hole fluid samples for pressure volume temperature ("PVT") and reservoir flow characteristics/properties. No maximum rate testing was performed. Reported rates are not indicative of maximum production capability, long-term performance, or possible rates to the production facility determined by future reservoir management policies. Well test data and fluid analysis is ongoing.

DST 1 - 2,600 to 2612 metres measured depth ("MD"). This interval was selected for fluid sampling only. The formation was tight and no fluid samples could be obtained.

DST 2 - 72 metres of perforations over three intervals from 2,194 to 2,410 metres MD in the Barsarin/Naokelekan. The well was flowed at various rates with highest reported oil rate being 3,084 bopd. The oil density was approximately 27° API (surface measurements) with an average gas to oil ration ("GOR") of 356scf/bbl.

DST 3 - 83 metres of perforations over three intervals from 1,875 to 1,995 metres MD in the Barsarin/Naokelekan. The well was flowed at various rates with highest reported oil rate being 5,255 bopd with an average GOR of 247scf/bbl. The oil density was 28° API (surface measurements) with laboratory results pending. The low GOR confirms no proximity to a gas cap.

Chiya Khere-5 Phase 1 Development Well

CK-5 is a Phase 1 development well targeting the reservoir approx. 400 metres southwest of the AT-1/AT-4/CK-5 drilling pad. The rig move is currently underway with an expected spud date before the end of May 2014.

Chiya Khere-6 Phase 2 Appraisal Well

There are plans to mobilise a second rig by mid June 2014 to drill the CK-6 Phase 2 area appraisal well. CK-6 will be drilled updip from the Atrush 3 ("AT-3") drilling pad.

AT-3 Re-Entry and Re-Test

Following operations on CK-6, plans are to re-enter and re-test AT-3 with an updated testing configuration.

Chiya Khere-7 Appraisal and Development Well

Work is underway preparing access to the planned CK-7 well location. The planned location is part of the Phase 2 appraisal program. If successful, the well can be tied into the Phase 1 production facility as a fourth producer. Drilling operations are anticipated to start before year end.

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

SELECTED QUARTERLY FINANCIAL 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 <u>2014</u>	Dec 31 <u>2013</u>	Sep 30 <u>2013</u>	Jun 30 <u>2013</u>	Mar 31 <u>2013</u>	Dec 31 <u>2012</u>	Sep 30 <u>2012</u>	Jun 30 <u>2012</u>
Continuing operations								
General and admin. expense	(556)	(1,016)	(572)	(355)	(450)	(1,497)	(512)	(459)
Share based payments expense	(147)	(157)	(159)	(565)	(1)	-	(2)	(8)
Depreciation and amortisation	(11)	(11)	(19)	(16)	(19)	(40)	(46)	(48)
Share of income / (loss) of associate	-	-	-	-	-	129,209	(97)	(46)
Impairment (loss) / recovery	-	-	-	(84)	-	1,255	(138)	945
Gain on sale of asset	-	-	-	-	-	-	1,100	-
Gain on fair valuation of assets	-	-	-	-	-	102,735	-	-
Finance cost	(1,364)	(693)	(64)	(23)	-	(24)	(393)	(360)
Finance income	2	2	7	10	50	-	1	25
Income tax expense	(32)	(24)	(13)	(10)	(40)	(26)	(11)	(28)
Net (loss) / inc. from continuing ops.	<u>(2,108)</u>	<u>(1,899)</u>	<u>(820)</u>	<u>(1,043)</u>	<u>(460)</u>	<u>231,612</u>	<u>(98)</u>	<u>21</u>
Discontinued operations								
Gain on release of excess provision	-	981	-	-	-	-	-	-
(Expense) / income	(15)	(6)	(13)	(7)	(20)	1	(12)	(13)
Net (loss) / inc. from discontinued ops.	<u>(15)</u>	<u>975</u>	<u>(13)</u>	<u>(7)</u>	<u>(20)</u>	<u>1</u>	<u>(12)</u>	<u>(13)</u>
Net (loss) / income	<u>(2,123)</u>	<u>(924)</u>	<u>(833)</u>	<u>(1,050)</u>	<u>(480)</u>	<u>231,613</u>	<u>(110)</u>	<u>8</u>
Basic income in \$ per share:								
Continuing operations	-	-	-	-	-	0.29	-	-
Discontinued operations	-	-	-	-	-	-	-	-
	-	-	-	-	-	0.29	-	-
Diluted income in \$ per share:								
Continuing operations	-	-	-	-	-	0.29	-	-
Discontinued operations	-	-	-	-	-	-	-	-
	-	-	-	-	-	0.29	-	-

Summary of Principal Changes in the First Quarter Financial Information

In the first quarter of 2014 work on the Atrush Block development program continued. The net loss in this quarter was primarily driven by bond interest expense, routine general and administrative expenses and share based payments expense in respect of continuing operations. The notable increase in finance cost relative to previous quarters in the current year related to interest expense on the Company's senior secured bonds.

Results of Continuing Operations

The Company's continuing operations are comprised of an appraisal and development program on the Atrush 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

<i>In \$000</i>	Three months ended March 31,	
	2014	2013
Salaries and benefits	1,085	926
Management and consulting fees	235	176
General and other office expenses	119	128
Legal, accounting and audit fees	91	100
Listing costs and investor relations	58	71
Travel expenses	31	19
General and administrative expense incurred	1,619	1,420
General and administrative expense capitalised as E&E assets	(1,063)	(970)
General and administrative expense	556	450

The Company capitalises as exploration and evaluation ("E&E") assets general and administrative expenses supporting E&E activities which relate to the interest held in the Atrush production sharing contract.

The increase in general and administrative expenses incurred in first quarter of 2014 relative to the amounts incurred over the comparable period of the prior year was primarily due to the strengthening of the Swiss franc against the USD which has resulted in increased salaries and benefits expense and management and consulting fees.

Share based payments expense

<i>In \$000</i>	Three months ended March 31,	
	2014	2013
Share based payments expense	147	1

The share based payments expense results from the vesting of stock options granted in the years 2011 and 2013. No stock options were granted in the three months ended March 31, 2014 (year 2011: 25,000; year 2013: 5,640,000). No options were granted in the year 2012. The Company uses the fair value method of accounting for stock options granted to directors, officers, employees and consultants whereby the fair value of all stock options granted is recorded as a charge to operations. The fair value of common share options granted is estimated on the date of grant using the Black-Scholes option pricing model.

Depreciation and amortisation expense

<i>In \$000</i>	Three months ended March 31,	
	2014	2013
Depreciation and amortisation expense	11	19

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

Finance cost*In \$000*

	Three months ended March 31,	
	2014	2013
Interest charges on bonds at coupon rate	4,360	-
Amortisation of bond related transaction costs	151	-
Interest expense on borrowings	4,511	-
Foreign exchange loss	21	-
Unwinding discount on decommissioning provision	7	-
Total finance costs before borrowing costs capitalised	4,539	-
Borrowing costs capitalised as E&E assets	(3,175)	-
Total finance costs	1,364	-

During the three months ended March 31, 2014 the Company incurred interest expense relating to its \$150 million of senior secured bonds which carry an 11.5% fixed semi-annual coupon interest rate.

The foreign exchange loss recorded in the period ended March 31, 2014 resulted from holding net assets denominated in United States dollars in the Swiss subsidiary of the Group while the United States dollar weakened during the reporting period against Swiss Franc, the functional currency of the Swiss subsidiary, and from holding in the Canadian subsidiary cash and cash equivalents denominated in Canadian dollars while the Canadian dollar weakened during the period against the United States dollar, the reporting currency of the Company.

Finance income*In \$000*

	Three months ended March 31,	
	2014	2013
Interest income	2	9
Foreign exchange gain	-	41
Total finance income	2	50

Interest income represents bank interest earned on cash and investments in marketable securities. The relative decrease is due to the lower average cash balances held throughout the reporting period.

The foreign exchange gain reported in the first three months of 2013 resulted primarily from holding net assets denominated in United States dollars in the Swiss subsidiary of the group while the United States dollar strengthened during the reporting period against the Swiss Franc, the functional currency of the Swiss subsidiary.

Income tax expense*In \$000*

	Three months ended March 31,	
	2014	2013
Income tax expense	32	40

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 decrease in tax expense from the comparable reporting period is primarily due to less taxable foreign exchange income in the Swiss subsidiary, and was offset by a relatively higher cost of service.

Results of Discontinued Operations

The main components of discontinued operations are explained as follows:

Expenses

<i>In \$000</i>	Three months ended March 31,	
	2014	2013
Legal, accounting and audit fees	11	18
General and other office expenses	4	2
Total expenses	15	20

The decrease in fees and expenses in the first quarter 2014 relative to the amounts incurred in the same period in 2013 is due to the reduction in activity associated with the Company's United States based operations following the sale in 2009 of the properties located there. The professional and general fees which the Company continues to incur are related to the decommissioning and windup of the interests it held in the United States.

Capital Expenditures on Exploration and Evaluation Assets

The net book value of the Company's E&E assets at March 31, 2014 relate to the Atrush Block and includes \$13.9 million of advances resulting from payments made on behalf of a partner in the Atrush Block. The movements in E&E are explained as follows:

<i>In \$000</i>	For the three months ended March 31, 2014	For the year ended December 31, 2013
Movements during the period:		
Net book value, opening	344,988	303,523
Additions	16,901	41,465
Net book value, ending	361,889	344,988
At period end:		
Cost	361,889	344,988
Net book value, ending	361,889	344,988

The additions to E&E assets during the three first months of the year 2014 of \$16.9 million were comprised of Atrush drilling and field development activity costs totalling \$12.6 million, borrowing costs capitalised of \$3.2 million, and general and administrative costs relating to Atrush Block E&E activities totalling \$1.1 million.

Borrowings

At March 31, 2014 GEP, a wholly owned indirect subsidiary of the Company, had outstanding \$150 million of senior secured bonds. The bonds have a five year maturity without amortisation and carry an 11.5% fixed semi-annual coupon and will be used to fund future capital expenditures related to the development of the Atrush Block.

The bonds include an unconditional and irrevocable on-demand guarantee on a joint and several basis from the Company and certain of the Company's direct and indirect subsidiaries and, among other arrangements, agreements which pledge all of the ordinary shares of GEP and the Company's Swiss service subsidiary, ShaMaran Services S.A., as security for GEP's bond related obligations, as well as an internal credit facility agreement among the Company and certain of its subsidiaries setting out the terms and conditions for intra-group credit to be made available amongst the parties.

Under the terms of the bond agreement all bond proceeds are held in accounts pledged to the bond trustee as security, and may be accessed by the Company on prior authorisation of the bond trustee and provided the proceeds are to be employed for prescribed purposes, most notably to fund the financing, development and operation of the Atrush Block, to service 24 months of bond coupon interest expense, and to fund technical, management and administrative services of ShaMaran's subsidiary companies up to \$6 million per year over the remaining term of the bond. Of the Company's \$122.0 million of total cash and cash equivalents at March 31, 2014, \$113.5 million was held in accounts pledged to the bond trustee.

The movements in borrowings are explained as follows:

In \$000

	For the three months ended March 31, 2014	For the year ended December 31, 2013
Opening balance	149,302	-
Accrued interest expense on bonds	4,360	2,252
Cumulative amortisation of bond related transaction costs	151	78
Net proceeds from bonds	-	146,972
Ending balance	153,813	149,302
- Current portion: accrued interest expense on bonds	6,612	2,252
- Non-current portion: borrowings	147,201	147,050

The remaining contractual obligation comprising repayment of principal and interest expense based on undiscounted cash flows at payment date, assuming the bonds are not early redeemed, are as follows:

In \$000

	At March 31, 2014	At December 31, 2013
Less than one year	17,250	17,250
Between two and five years	216,201	216,050
Total	233,451	233,300

LIQUIDITY AND CAPITAL RESOURCES

Working capital at March 31, 2014 was \$113.6 million compared to \$26.7 million at March 31, 2013.

The overall cash position of the Company decreased by \$20.6 million during the first three months of 2014 compared to a decrease in cash of \$5.9 million during the comparable period of 2013. 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 2014 resulted in a decrease in the cash position by \$6.8 million compared to a decrease by \$3.5 million during the comparable period in 2013. The decrease in the cash position due to operating activities over the first quarter of 2014 is explained by a net loss of \$2.1 million, \$4.2 million net negative cash adjustments from working capital and non-cash expenses and \$0.5 million of cash used on discontinued operations.

Net cash outflows to investing activities in the first three months of 2014 were \$13.8 million compared to cash outflows in the amount of \$2.4 million in the comparable period of the year 2013. Substantially all of the cash outflows on investing activities in the current period relate to investment in the Atrush Block appraisal and development work program.

There were no cash flows due to finance activities during the three months ended March 31, 2014 and 2013.

The share based payments reserve increased by \$147 in the first quarter of 2014 (2013: \$1) due entirely to share based payments expense incurred during the period. There were no stock options exercised during this period (2013: 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 and gas appraisal and development operations. The Company has relied upon the issuance of common shares, proceeds from asset sales and, most recently, bonds, to finance its ongoing oil exploration, development and acquisition activities. The Company believes it currently has sufficient financial resources to fund its commitments under the current agreed work plan. Nevertheless the potential remains that the Company's operations and finances could be significantly affected by adverse exploration and appraisal results, geopolitical events in the region, macroeconomic conditions or other risks. The potential that the Company's financial resources are insufficient to fund its appraisal and development activities 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.

OUTSTANDING SHARE DATA

There was no change in the first quarter of 2014 in the number of common shares of the Company outstanding which was 810,983,860 at December 31, 2013, March 31, 2014 and at the date of this MD&A.

There was no change in the first quarter of 2014 in the number of stock options outstanding under the Company's employee incentive stock option plan which was 8,263,664 at December 31, 2013 and March 31, 2014. There has been no further movement in stock options from March 31, 2014 to the date of this MD&A.

The Company has no warrants outstanding.

OFF BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements.

RELATED PARTY TRANSACTIONS

In \$000

	Purchases of services for the three months ended		Amounts owing at the balance sheets dates,	
	March 31, 2014	March 31, 2013	March 31, 2014	December 31, 2013
Lundin Petroleum AB	110	106	90	89
Namdo Management Services Ltd.	51	76	15	15
McCullough O'Connor Irwin LLP	6	(2)	12	14
Vostok Nafta Investment Ltd.	-	6	-	-
Total	167	186	117	118

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, 2014 of \$110 (2013: \$106) were comprised of G&G and other technical service costs of \$6 (2013: \$13), investor relations services of \$6 (2013: \$nil), reimbursement for Company travel and related expenses of \$1 (2013: \$nil), office rental, administrative and building services of \$97 (2013: \$93).

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.

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

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

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.

COMMITMENTS

Atrush Block Production Sharing Contract

ShaMaran holds a 20.1% direct interest in the PSC through its wholly owned subsidiary GEP. TAQA is the operator with a 39.9% direct interest, Marathon holds a 15% direct interest, and the remaining 25% interest was acquired by the KRG on March 12, 2013.

Under the terms of the PSC the development period is for 20 years with an automatic right to a five year extension and the possibility to extend for an additional five years. The PSC requires the Contracting companies to fund certain training and environmental assistance projects over the development period. All qualifying petroleum costs incurred by the Contractor shall be recovered from a portion of available petroleum production, defined under the terms of the PSC. All modifications to the PSC are subject to the approval of the KRG. The Company is responsible for its pro-rata share of the costs incurred in executing the development work program on the Atrush Block which commenced on October 1, 2013.

As at March 31, 2014 the outstanding commitments of the Company were as follows:

	For the year ended March 31,				Total
	2015	2016	2017	Thereafter	
Atrush Block development and PSC	60,610	120	120	2,050	62,900
Office and other	84	-	-	-	84
Total commitments	60,694	120	120	2,050	62,984

PROPOSED TRANSACTIONS

The Company had no significant transactions pending at May 15, 2014.

CRITICAL ACCOUNTING ESTIMATES AND ACCOUNTING POLICIES

Accounting Estimates

The consolidated financial statements of the Company have been prepared by management using 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 utilised 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.

New Accounting Standards

The Company has adopted effective January 1, 2014 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.

IAS 32 - Financial Instruments Presentation, updates the application guidance in IAS 32, to clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet. The amendment becomes effective for annual periods beginning on or after 1 January 2014. This amendment does not have a material effect on the Company's consolidated financial statements.

IAS 36 - Impairment of Assets, addresses the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. The amendment becomes effective for annual periods beginning on or after 1 January 2014. This amendment affects presentation only and has been incorporated into the Company's financial reporting.

IFRIC 21 – Levies, addresses the accounting for an obligation to pay a levy that is not an income tax. The guidance addresses the accounting for a liability to pay a levy recognised in accordance with IAS 37 Provisions, and the liability to pay a levy whose timing and amount is certain. The amendment becomes effective for annual periods beginning on or after 1 January 2014. This guidance does not have a material effect on the Company's consolidated financial statements.

Accounting Standards Issued But Not Yet Applied

Standards and interpretations issued but not yet effective up to the date of issuance of the financial statements are listed below. This listing of standards and interpretations issued are those that the Company reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date.

IFRS 9: Financial Instruments - Classification and Measurement, addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and amended in October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than in net earnings, unless this creates an accounting mismatch. The effective date of this standard has not yet been established by the IASB.

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 and appraisal wells that are likely to result in proved reserves and costs of drilling and equipping development wells are capitalised and subject to annual impairment testing.

Exploration well costs are initially capitalised 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 capitalised as long as sufficient progress is being made to assess the reserves and economic viability of the well and or related project.

Capitalised 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 amortised 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 recognised 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.

There were no changes in the first three months of 2014 to the resources previously reported by the Company as at December 31, 2013.

Risks in estimating resources: There are a number of uncertainties inherent in estimating the quantities of reserves and resources including factors which are beyond the control of the Company. Estimating reserves and resources is a subjective process and the results of drilling, testing, production and other new data subsequent to the date of an estimate may result in revisions to original estimates.

Reservoir parameters may vary within reservoir sections. The degree of uncertainty in reservoir parameters used to estimate the volume of hydrocarbons, such as porosity, net pay and water saturation, may vary. The type of formation within a reservoir section, including rock type and proportion of matrix and or fracture porosity, may vary laterally and the degree of reliability of these parameters as representative of the whole reservoir may be proportional to the overall number of data points (wells) and the quality of the data collected. Reservoir parameters such as permeability and effectiveness of pressure support may affect the recovery process. Recovery of reserves and resources may also be affected by the availability and quality of water, fuel gas, technical services and support, local operating conditions, security, performance of the operating company and the continued operation of well and plant equipment.

Additional risks associated with estimates of reserves and resources include risks associated with the oil and gas industry in general which include normal operational risks during drilling activity, development and production; delays or changes in plans for development projects or capital expenditures; the uncertainty of estimates and projections related to production, costs and expenses; health, safety, security and environmental risks; drilling equipment availability and efficiency; the ability to attract and retain key personnel; the risk of commodity price and foreign exchange rate fluctuations; the uncertainty associated with dealing with governments and obtaining regulatory approvals; performance and conduct of the operator; and risks associated with international operations.

The Company's project is in the appraisal and development stages and, as such, additional information must be obtained by further appraisal drilling and testing to ultimately determine the economic viability of developing any of the contingent or prospective resources. There is no certainty that the Company will be able to commercially produce any portion of its contingent or prospective resources. Any significant change, in particular, if the volumetric resource estimates were to be materially revised downwards in the future, could negatively impact investor confidence and ultimately impact the Company's performance, share price and total market capitalisation.

The Company has engaged professional geologists and engineers to evaluate reservoir and development plans; however, process implementation risk remains. The Company's reserves and resource estimations are based on data obtained by the Company which has been independently evaluated by McDaniel & Associates Consultants Ltd.

BOEs: BOEs may be misleading, particularly if used in isolation. A BOE conversion ratio of 6 Mcf : 1 Bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

FINANCIAL INSTRUMENTS

The Company's financial instruments currently consist of cash, cash equivalents, advances to joint venture operator, other receivables, borrowings, accounts payable and accrued expenses, accrued interest on bonds, provisions for decommissioning costs, and current tax liabilities. The Company classifies its financial assets and liabilities at initial recognition in the following categories:

- Financial assets and liabilities at fair value through profit or loss are those assets and liabilities acquired principally for the purpose of selling or repurchasing in the short-term and are recognised at fair value. Transaction costs are expensed in the statement of comprehensive income and gains or losses arising from changes in fair value are also presented in the statement of comprehensive income within other gains and losses in the period in which they arise. Financial assets and liabilities at fair value through profit or loss are classified as current except for the portion expected to be realised or paid beyond twelve months of the balance sheet date, which is classified as non-current.
- Loans and receivables comprise of other receivables and cash and cash equivalents and are financial assets with fixed or determinable payments that are not quoted on an active market and are generally included within current assets due to their short-term nature. Loans and receivables are initially recognised at fair value and are subsequently measured at amortised cost using the effective interest method less any provision for impairment.
- Financial liabilities at amortised cost comprise of trade and other payables and are initially recognised at the fair value of the amount expected to be paid and are subsequently measured at amortised cost using the effective interest rate method. Financial liabilities are classified as current liabilities unless the Company has an unconditional right to defer settlement for at least 12 months after the balance sheet date.

With the exception of borrowings, accrued interest on bonds and provisions for decommissioning costs, which have fair value measurements based on valuation models and techniques where the significant inputs are derived from quoted prices or indices, the fair values of the Company's other financial instruments did not require valuation techniques to establish fair values as the instrument was either cash and cash equivalents or, due to the short term nature, readily convertible to or settled with cash and cash equivalents.

The Company is exposed in varying degrees to a variety of financial instrument related risks which are discussed in the following sections:

Financial Risk Management Objectives

The Company's management monitors and manages the Company's exposure to financial risks facing the operations. These financial risks include market risk (including commodity price, foreign currency and interest rate risks), credit risk and liquidity risk.

The Company does not presently hedge against these risks as the benefits of entering into such agreements is not considered to be significant enough as to outweigh the significant cost and administrative burden associated with such hedging contracts.

Commodity price risk: The prices that the Company receives for its oil and gas production may have a significant impact on the Company's revenues and cash flows provided by operations. World prices for oil and gas are characterised by significant fluctuations that are determined by the global balance of supply and demand and worldwide political developments and in particular the price received for the Company's oil and gas production in Kurdistan is dependent upon the Kurdistan government and its ability to export production outside of Iraq. A significant decline in the price at which the Company can sell future oil and gas production could adversely affect the amount of funds available for capital reinvestment purposes as well as the Company's value in use calculations for impairment test purposes.

The Company does not hedge against commodity price risk, however given that the Company is in the exploration and development stage, it is not currently exposed to significant commodity price risk.

Foreign currency risk: The substantial portion of the Company's operations require purchases denominated in USD, which is the functional and reporting currency of the Company and also the currency in which the Company maintains the substantial portion of its cash and cash equivalents. Certain of its operations require the Company to make purchases denominated in foreign currencies, which are currencies other than USD and correspond to the various countries in which the Company conducts its business, most notably, Swiss Francs and Canadian dollars. As a result, the Company holds some cash and cash equivalents in foreign currencies and is therefore exposed to foreign currency risk due to exchange rate fluctuations between the foreign currencies and the USD. The Company considers its foreign currency risk is limited because it holds relatively insignificant amounts of foreign currencies at any point in time and since its volume of transactions in foreign currencies is currently relatively low. The Company has elected not to hedge its exposure to the risk of changes in foreign currency exchange rates.

Interest rate risk: The Company earns interest income at variable rates on its cash and cash equivalents and is therefore exposed to interest rate risk due to a fluctuation in short-term interest rates.

The Company's policy on interest rate management is to maintain a certain amount of funds in the form of cash and cash equivalents for short-term liabilities and to have the remainder held on relatively short-term deposits.

The Group is highly leveraged through financing at the project level, for the continuation of Atrush project, and at the corporate level due to the \$150 million of senior secured bonds which were issued in November 2013. However, the Company is not exposed to interest rate risks associated with the bonds as the interest rate is fixed.

Credit risk: Credit risk is the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company is primarily exposed to credit risk on its cash and cash equivalents and other receivables.

The Company manages credit risk by monitoring counterparty ratings and credit limits and by maintaining excess cash and cash equivalents 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 recognised bond rating service.

The carrying amounts of the Company's financial assets recorded in the consolidated financial statements represent the Company's maximum exposure to credit risk.

Liquidity risk: Liquidity risk is the risk that the Company will have difficulties meeting its financial obligations as they become due. In common with many oil and gas exploration companies, the Company raises financing for its exploration and development activities in discrete tranches in order to finance its activities for limited periods. The Company seeks to raise additional funding as and when required. The Company anticipates making substantial capital expenditures in the future for the acquisition, exploration, development and production of oil and gas reserves and as the Company's project moves further into the development stage, specific financing, including the possibility of additional debt, may be required to enable future development to take place. The financial results of the Company will impact its access to the capital markets necessary to undertake or complete future drilling and development programs. There can be no assurance that debt or equity financing, or future cash generated by operations, would be available or sufficient to meet these requirements or, if debt or equity financing is available, that it will be on terms acceptable to the Company.

The Company manages liquidity risk by maintaining adequate cash reserves and by continuously monitoring forecast and actual cash flows. Annual capital expenditure budgets are prepared, which are regularly monitored and updated as considered necessary. In addition, the Company requires authorisations for expenditure on both operating and non-operating projects to further manage capital expenditures.

RISKS AND UNCERTAINTIES

ShaMaran Petroleum Corp. is engaged in the exploration, development and production of crude oil and natural gas and its operations are subject to various risks and uncertainties which include but are not limited to those listed below. **If any of the risks described below materialise the effect on the Company's business, financial condition or operating results could be materially adverse.**

The following sections describe material risks identified by the Company; however, risks and uncertainties of which the Company is not currently aware or currently believes to be immaterial could develop and may adversely affect the Company's business, financial condition or operating results. For more information on risk factors which may affect the Company's business refer also to the discussion of risks under the "Reserves and Resources" and "Financial Instruments" sections of this MD&A above, as well as to the "Risk Factors" section of its Annual Information Form, which is available for viewing both on the Company's web-site at www.shamaranpetroleum.com and on SEDAR at www.sedar.com, under the Company's profile.

Political and Regional Risks

International operations: Oil and gas exploration, development and production activities in emerging countries are subject to significant political, social and economic uncertainties which are beyond ShaMaran's control. Uncertainties include, but are not limited to, the risk of war, terrorism, criminal activity, expropriation, nationalisation, renegotiation or nullification of existing or future contracts, the imposition of international sanctions, a change in crude oil or natural gas pricing policies, a change in taxation policies, a limitation on the Company's ability to export, and the imposition of currency controls. Should these uncertainties materialise they could result in adverse effects to the Company's business including, but not limited to, increased costs associated with planned projects, impairment or termination of future revenue generating activities, impairment of the value of the Company's assets and or its ability to meet its contractual commitments as they become due.

Political instability: ShaMaran's assets and operations are located in Kurdistan, a federally recognised semi-autonomous political region in Iraq, and may be influenced by political developments between Kurdistan and the Iraq federal government, as well as political developments of neighbouring states within MENA, Turkey, and surrounding areas. Kurdistan and Iraq have a history of political and social instability. As a result, the Company is subject to political, economic and other uncertainties that are not within its control including, but are not limited to, changes in government policies and legislation, adverse legislation or determinations or rulings by governmental authorities and disputes between the Iraq federal government and Kurdistan. The unfavourable outcome of political uncertainties could result in adverse effects to the Company's assets and business including, but not limited to, increased costs associated with planned projects, impairment or termination of future revenue generating activities and impairment of the value of the Company's assets and or its ability to meet its contractual commitments as they become due.

International boundary disputes: Although the Kurdistan Region of Iraq is recognised by the Iraq constitution as a semi-autonomous region, its geographical extent is neither defined in the Iraq constitution nor agreed in practice between the Federal Government and the Kurdistan Regional Government. There are ongoing differences between the KRG and the Federal Government regarding certain areas which are commonly known as “disputed territories”. The Company believes that its current area of operation is not within the “disputed territories”.

Industry and Market Risks

Exploration, development and production risks: ShaMaran’s business is subject to all of the risks and hazards inherent in businesses involved in the exploration, development, production and marketing of oil and natural gas, many of which cannot be overcome even with a combination of experience, knowledge and careful evaluation. The risks and hazards typically associated with oil and gas operations include drilling of unsuccessful wells, fire, explosion, blowouts, sour gas releases, pipeline ruptures and oil spills, each of which could result in substantial damage to oil and natural gas wells, production facilities, other property or the environment, or in personal injury. The Company is not fully insured against all of these risks, nor are all such risks are insurable and, as a result, these risks could still result in adverse effects to the Company’s business not fully mitigated by insurance coverage including, but not limited to, increased costs or losses due to events arising from accidents or other unforeseen outcomes including cleanup, repair, containment and or evacuation activities, settlement of claims associated with injury to personnel or property, and or loss of revenue as a result of downtime due to accident.

General market conditions: ShaMaran’s business and operations depend upon conditions prevailing in the oil and gas industry including the current and anticipated prices of oil and gas and the global economic activity. A reduction of the oil price, a general economic downturn, or a recession could result in adverse effects to the Company’s business including, but not limited to, reduced cash flows associated with the Company’s future oil and gas sales.

Competition: The petroleum industry is intensely competitive in all aspects including the acquisition of oil and gas interests, the marketing of oil and natural gas, and acquiring or gaining access to necessary drilling and other equipment and supplies. ShaMaran competes with numerous other companies in the search for and acquisition of such prospects and in attracting skilled personnel. ShaMaran’s competitors include oil companies which have greater financial resources, staff and facilities than those of the Company. ShaMaran’s ability to increase reserves in the future will depend on its ability to develop its present property, to select and acquire suitable producing properties or prospects on which to conduct future exploration and to respond in a cost-effective manner to economic and competitive factors that affect the distribution and marketing of oil and natural gas.

Reliance on key personnel: ShaMaran’s success depends in large measure on certain key personnel and directors. The loss of the services of such key personnel could negatively affect ShaMaran’s ability to deliver projects according to plan and result in increased costs and delays. ShaMaran has not obtained key person insurance in respect of the lives of any key personnel. In addition, competition for qualified personnel in the oil and gas industry is intense and there can be no assurance that ShaMaran will be able to attract and retain the skilled personnel necessary for the operation and development of its business.

Business Risks

Risks associated with petroleum contracts in Iraq: The Iraq oil ministry has historically disputed the validity of the KRG’s production sharing contracts and, as a result indirectly, the Company’s right and title to its oil and gas assets. The KRG is disputing the claims and has stated that the contracts are compliant with the Iraq constitution. At the present time there is no assurance that the PSCs agreed with the KRG are enforceable or binding in accordance with ShaMaran’s interpretation of their terms or that, if breached, the Company would have remedies. The Company believes that it has valid title to its oil and gas assets and the right to explore for and produce oil and gas from such assets under the Atrush Block PSC. However, should the Iraq federal government pursue and be successful in a claim that the production sharing contracts agreed with the KRG are invalid, or should any unfavourable changes develop which impact on the economic and operating terms of the Atrush Block PSC, it could result in adverse effects to the Company’s business including, but not limited to, impairing the Company’s claim and title to assets held, and or increasing the obligations required, under the Atrush Block PSC.

Government regulations, licenses and permits: The Company is affected by changes in taxes, regulations and other laws or policies affecting the oil and gas industry generally as well as changes in taxes, regulations and other laws or policies applicable to oil and gas exploration and development in Kurdistan specifically. The Company's ability to execute its projects may be hindered if it cannot secure the necessary approvals or the discretion is exercised in a manner adverse to the Company. The taxation system applicable to the operating activities of the Company in Kurdistan is pursuant to the Oil and Gas Law governed by general Kurdistan tax law and the terms of its PSCs. However, it is possible that the arrangements under the PSCs may be overridden or negatively affected by the enactment of any future oil and gas or tax law in Iraq or Kurdistan which could result in adverse effects to the Company's business including, but not limited to, increasing the Company's expected future tax obligations associated with its activities in Kurdistan.

Marketing, markets and transportation: The export of oil and gas and payments relating to such exports from Kurdistan remains subject to uncertainties which could negatively impact on ShaMaran's ability to export oil and gas and receive payments relating to such exports. Further, ShaMaran's ability to export and market 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 result in adverse effects to the Company's business including, but not limited to, impairing the Company's ability to export and sell oil and gas and receive full payment for all sales of oil and gas.

Default under the Atrush Block PSC and Atrush JOA: Should the Company fail to meet its obligations under the Atrush Block PSC and or Atrush Block joint operating agreement ("Atrush JOA") it could result in adverse effects to the Company's business including, but not limited to, a default under one or both of these contracts, the termination of future revenue generating activities of the Company and impairment of the Company's ability to meet its contractual commitments as they become due.

Kurdistan legal system: The Kurdistan Region of Iraq has a less developed legal system than that of many more established regions. This could result in risks associated with predicting how existing laws, regulations and contractual obligations will be interpreted, applied or enforced. In addition it could make it more difficult for the Company to obtain effective legal redress in courts in case of breach of law, regulation or contract and to secure the implementation of arbitration awards and may give rise to inconsistencies or conflicts among various laws, regulations, decrees or judgments. The Company's recourse may be limited in the event of a breach by a government authority of an agreement governing the PSC in which ShaMaran acquires or holds an interest.

Enforcement of judgments in foreign jurisdictions: The Company is party to contracts with counterparties located in a number of countries, most notably Kurdistan. Certain of its contracts are subject to English law with legal proceedings in England. However, the enforcement of any judgments thereunder against a counterparty will be a matter of the laws of the jurisdictions where counterparties are domiciled.

Change of control in respect of PSC: The Atrush Block PSC definition of "change of control" in a Contractor includes a change of voting majority in the Contractor, or in a parent company, provided the value of the interest in the Atrush field represents more than 50% of the market value of assets in the Company. Due to the limited amount of other assets held by the Company this will apply to a change of control in GEP or any of its parent companies. Change of control requires the consent of KRG or it will trigger a default under the PSC.

Project and Operational Risks

Shared ownership and dependency on partners: ShaMaran's operations are to a significant degree conducted together with one or more partners through contractual arrangements with the execution of the operations being undertaken by the operator in accordance with the terms of the Atrush JOA. As a result, ShaMaran has limited ability to exercise influence over the deployment of those assets or their associated costs and this could adversely affect ShaMaran's financial performance. If the operator or other partners fail to perform, ShaMaran may, among other things, risk losing rights or revenues or incur additional obligations or costs in order to itself perform in place of its partners. If a dispute would arise with one or more partners such dispute may have significant negative effects on the Company's operations relating to its projects.

Security risks: Kurdistan and other regions in Iraq have a history of political and social instability which have culminated in security problems which may put at risk the safety of the Company's personnel, interfere with the efficient and effective execution of the Company's operations and ultimately result in significant losses to the Company. There have been no significant security incidents in the Company's area of operation.

Risks relating to infrastructure: The Company is dependent on access to available and functioning infrastructure (including third party services in Kurdistan) relating to the properties on which it operates, such as roads, power and water supplies, pipelines and gathering systems. If any infrastructure or systems failures occur or access is not possible or does not meet the requirements of the Company, the Company's operations may be significantly hampered which could result in lower production and sales and or higher costs.

Environmental regulation and liabilities: Drilling for and producing, handling, transporting and disposing of oil and gas and petroleum by-products are activities that are subject to extensive regulation under national and local environmental laws, including in those countries in which ShaMaran currently operates. The Company has implemented health, safety and environment policies since its incorporation, complies with industry environmental practices and guidelines for its operations in Kurdistan and is currently in compliance with these obligations in all material aspects. Environmental protection requirements have not, to date, had a significant effect on the capital expenditures and competitive position of ShaMaran. Future changes in environmental or health and safety laws, regulations or community expectations governing the Company's operations could result in adverse effects to the Company's business including, but not limited to, increased monitoring, compliance and remediation costs and or costs associated with penalties or other sanctions imposed on the Company for non-compliance or breach of environmental regulations.

Risk relating to community relations / labour disruptions: The Company's operations may be located in or near communities that may regard operations as detrimental to their environmental, economic or social circumstances. Negative community reactions and any related labour disruptions or disputes could increase operational costs and result in delays in the execution of projects.

Petroleum costs and cost recovery: Under the terms of the Atrush Block PSC the KRG is entitled to conduct an audit to verify the validity of incurred petroleum costs which the operator has reported to the KRG and is therefore entitled under the terms of the Atrush Block PSC to recover through cash payments from future petroleum production. No such audit has to date taken place. Should any future audits result in negative findings concerning the validity of reported incurred petroleum costs the Company's petroleum cost recovery entitlement could ultimately be reduced.

Legal claims and disputes: The Company may suffer unexpected costs or other losses if a counterparty to any contractual arrangement entered into by the Company does not meet its obligations under such agreements. In particular, the Company cannot control the actions or omissions of its partners in the Atrush Block PSC. If such parties were to breach the terms of the Atrush Block PSC or any other documents relating to the Company's interest in the Atrush Block PSC, it could cause the KRG to revoke, terminate or adversely amend the Atrush Block PSC.

Paying interest: Under the terms of the Atrush Block PSC, on exercise of its back-in right, the KRG is required to pay its share of project development costs. The Contractors are currently paying the KRG costs and there is a risk that the Contractors may be exposed to fund the KRG share of project development costs.

Uninsured losses and liabilities: Although the Company maintains insurance in accordance with industry standards to address risks relating to its operations, the insurance coverage may under certain circumstances not protect it from all potential losses and liabilities that could result from its operations.

Availability of equipment and services: ShaMaran's oil and natural gas exploration and development activities are dependent on the availability of third party services, drilling and related equipment and qualified staff in the particular areas where such activities are or will be conducted. Shortages of such equipment or staff may affect the availability of such equipment to ShaMaran and may delay and or increase the cost of ShaMaran's exploration and development activities.

Early stage of development: ShaMaran has conducted oil and gas exploration and development activities in Kurdistan for approximately four years. The current operations are in an appraisal and development stage and there can be no assurance that ShaMaran's operations will be profitable in the future or will generate sufficient cash flow to satisfy its future commitments.

Financial and Other Risks

Financial statements prepared on a going concern basis: The Company's financial statements have been prepared on a going concern basis under which an entity is considered to be able to realise its assets and satisfy its liabilities in the ordinary course of business. ShaMaran's operations to date have been primarily financed by debt and equity financing. The Company's future operations are dependent upon the identification and successful completion of additional equity or debt financing or the achievement of profitable operations. There can be no assurances that the Company will be successful in completing additional financing or achieving profitability. The consolidated financial statements do not give effect to any adjustments relating to the carrying values and classification of assets and liabilities that would be necessary should ShaMaran be unable to continue as a going concern.

Substantial capital requirements: ShaMaran anticipates making substantial capital expenditures in the future for the acquisition, exploration, development and production of oil and gas. ShaMaran's results could impact its access to the capital necessary to undertake or complete future drilling and development programs. To meet its operating costs and planned capital expenditures, ShaMaran may require financing from external sources, including from the sale of equity and debt securities. There can be no assurance that such financing will be available to the Company or, if available, that it will be offered on terms acceptable to ShaMaran. If ShaMaran or any of its partners in the oil asset are unable to complete minimum work obligations on the Atrush Block PSC, this PSC could be relinquished under applicable contract terms.

Dilution: The Company may make future acquisitions or enter into financings or other transactions involving the issuance of securities of the Company. If additional financing is raised through the issuance of equity or convertible debt securities, control of the Company may change and the interests of shareholders in the net assets of ShaMaran may be diluted.

Tax legislation: The Company has entities incorporated and resident for tax purposes in Canada, the Cayman Islands, the Kurdistan Region of Iraq, the Netherlands, Switzerland and the United States of America. Changes in the tax legislation or tax practices in these jurisdictions may increase the Company's expected future tax obligations associated with its activities in such jurisdictions.

Capital and lending markets: As a result of general economic uncertainties and, in particular, the lack of risk capital available to the junior resource sector, the Company, along with other junior resource entities, may have reduced access to bank debt and to equity. As future capital expenditures will be financed out of funds generated from operations, bank borrowings if available, and possible issuances of debt or equity securities, the Company's ability to do so is dependent on, among other factors, the overall state of lending and capital markets and investor and lender appetite for investments in the energy industry generally, and the Company's securities in particular. To the extent that external sources of capital become limited or unavailable or available only on onerous terms, the Company's ability to invest and to maintain existing assets may be impaired, and its assets, liabilities, business, financial condition and results of operations may be materially and adversely affected as a result.

Recent distress in financial markets: In the future the Company is expected to require financing to grow its business. The recent distress affecting the financial markets and the possibility that financial institutions may consolidate or go bankrupt has reduced levels of activity in the credit markets which could diminish the amount of financing available to companies. The Company's liquidity and its ability to access the credit or capital markets may also be adversely affected by changes in the financial markets and the global economy.

Conflict of interests: Certain directors of ShaMaran are also directors or officers of other companies, including oil and gas companies, the interests of which may, in certain circumstances, come into conflict with those of ShaMaran. If and when a conflict arises with respect to a particular transaction, the affected directors must disclose the conflict and abstain from voting with respect to matters relating to the transaction.

Risks Related to the GEP's Senior Secured Bonds

Possible termination of PSC / Bond Agreement in event of default scenario: Should GEP default its obligations under the Bond Agreement GEP may also not be able to fulfil its obligations under the Atrush Block PSC and or Atrush JOA, with the effect that these contracts may be terminated or limited. In addition, should GEP default its obligations under the Atrush Block PSC and or Atrush JOA, with the effect that these contracts may be terminated or limited, GEP may also default in respect of its obligations under the Bond Agreement. Either default scenario could result in the termination of the Company's future revenue generating activities and impair the Company's ability to meet its contractual commitments as they become due.

Ability to service indebtedness: GEP's ability to make scheduled payments on or to refinance its obligations under the bonds will depend on GEP's financial and operating performance which, in turn, will be subject to prevailing economic and competitive conditions beyond GEP's control. It is possible that GEP's activities will not generate sufficient funds to make the required interest payments which could, among other things, result in an event of default under the Bond Agreement.

Significant operating and financial restrictions: The terms and conditions of the Bond Agreement contain restrictions on GEP's and the Guarantors' activities which restrictions may prevent GEP and the Guarantors from taking actions that it believes would be in the best interest of GEP's business, and may make it difficult for GEP to execute its business strategy successfully or compete effectively with companies that are not similarly restricted. No assurance can be given that it will be granted the necessary waivers or amendments if for any reason GEP is unable to comply with the terms of the Bond Agreement. A breach of any of the covenants and restrictions could result in an event of default under the Bond Agreement.

Mandatory prepayment events: Under the terms of the Bond Agreement the bonds are subject to mandatory prepayment by GEP on the occurrence of certain specified events, including if (i) the ownership in the Atrush Block is reduced to below 20.10% (ii) ShaMaran Petroleum Corp. ceases to indirectly own, or ShaMaran Ventures B.V. ceases to directly own, 100% of the shares in GEP (iii) GEP invests in any assets or enters into any other activities unrelated to the Atrush Block PSC or (iv) an event of default occurs under the Bond Agreement. Following an early redemption after the occurrence of a mandatory prepayment event, it is possible that GEP will not have sufficient funds to make the required redemption of bonds which could, among other things, result in an event of default under the Bond Agreement.

OUTLOOK

The outlook to the end of the year 2014 is as follows:

Atrush Block

Following the KRG approval of Phase 1 plans are being implemented to achieve First Oil of 30,000 bopd gross by early 2015.

Drilling and testing of the AT-4 appraisal/development well has been completed during the second quarter of 2014. Drilling plans for the remainder of the year 2014 include drilling of CK-5, the third Phase 1 development well, and CK-6 well, a Phase 2 appraisal well. Both CK-5 and CK-6 are expected to spud during the second quarter. Further testing of the AT-3 well will also be conducted during 2014 following a planned re-entry. Access and location preparations are also underway for CK-7.

The FEED for the Phase 1 Production Facilities was completed in October 2013. Orders for the production modules for the 30,000 bopd facilities were finalised in December 2013. Civil engineering at the selected facilities site was commenced in early 2014.

Plans are being put in place to implement a single dedicated feeder pipeline between Atrush and tie-in point at Kurdistan Crude Pipeline pumping station #2 ("KCP2") at kilometre 92 on the KRG export pipeline. The final route being is finalised. The pipeline FEED has been awarded to KAR Group/ILF Consulting Engineers.

New Ventures

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

Budget

The Board of Directors approved a budget for the year 2014 which includes net capital spending on the Atrush Block appraisal and development program and debt service and other costs totalling \$101.0 million. During the three months ended March 31, 2014 the Company spent \$18.6 million of the budgeted total for the year 2014.

The Company believes that based on the forecasts and projections they have prepared that its financial resources currently available will be sufficient for it to satisfy its contractual obligations and commitments under the agreed work program over the next 12 months. Nevertheless the potential remains that the Company's financial resources will be insufficient to fund its obligations over the next 12 months. The Company has a number of financing possibilities which it believes it would be able to pursue if and when required.

General

The security situation in Kurdistan remains stable. The region continues to see a rapid development in infrastructure and a significant increase in the availability of oil and gas services in the country. A number of major international oil companies, including ExxonMobil, Chevron, Marathon, Repsol, Total and Gazprom, have acquired properties in Kurdistan over the last two years. A number of significant discoveries in this region continue to be reported and many are now undergoing appraisal and development.

FORWARD LOOKING INFORMATION

This report contains forward-looking information and forward-looking statements. Forward-looking information concerns possible events or financial performance that is based on management's assumptions concerning anticipated developments in 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. Information concerning the interpretation of drill results and reserve estimates also may be deemed to be forward-looking information, as it constitutes a prediction of what might be found to be present if and when a project is actually developed.

Forward-looking statements are statements that are not historical and 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. 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 information and forward-looking statements are based on the beliefs, expectations and opinions of management on the date the statements are made. Management is regularly considering and evaluating assumptions that will impact on future performance. Those assumptions are exposed to generic risks and uncertainties as well as risks and uncertainties that are specifically related to the Company's operations.

The Company assumes no obligation to update its forward-looking information and forward-looking statements in the future. For the reasons set forth above, investors should not place undue reliance on forward-looking information and forward-looking statements.

ADDITIONAL INFORMATION

Additional information related to the Company, including its Annual Information Form, is available on SEDAR at www.sedar.com and on the Company's web-site at www.shamaranpetroleum.com.

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

	Note	At March 31, 2014	At December 31, 2013
Assets			
Non-current assets			
Intangible assets	11	361,891	344,990
Property, plant and equipment	12	196	179
		362,087	345,169
Current assets			
Cash and cash equivalents		121,984	142,588
Other current assets	13	1,799	194
		123,783	142,782
Assets associated with discontinued operations	10	2	3
Total assets		485,872	487,954
Liabilities and equity			
Current liabilities			
Accrued interest expense on bonds	15	6,612	2,252
Accounts payable and accrued expenses	14	3,527	7,458
Current tax liabilities		19	92
		10,158	9,802
Non-current liabilities			
Borrowings	15	147,201	147,050
Provisions	16	1,077	1,185
		148,278	148,235
Liabilities associated with discontinued operations	10	417	928
Total liabilities		158,853	158,965
Equity			
Share capital	17	534,068	534,068
Share based payments reserve		4,865	4,718
Cumulative translation adjustment		33	27
Accumulated deficit		(211,947)	(209,824)
Total equity		327,019	328,989
Total liabilities and equity		485,872	487,954

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

The financial statements were approved by the Board of Directors and authorised for issue on May 15, 2014 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, 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 owners:					
Share based payments expense	-	1	-	-	1
	-	1	-	-	1
Balance at March 31, 2013	534,068	3,837	(80)	(207,016)	330,809
Balance at January 1, 2014	534,068	4,718	27	(209,824)	328,989
Total comprehensive income / (loss) for the period	-	-	6	(2,123)	(2,117)
Transactions with owners in their capacity as owners:					
Share based payments expense	-	147	-	-	147
	-	147	-	-	147
Balance at March 31, 2014	534,068	4,865	33	(211,947)	327,019

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,	
		2014	2013
Operating activities			
Net loss from continuing operations		(2,108)	(460)
Adjustments for:			
Interest expense on senior secured bonds - net		1,336	-
Share based payments expense	18	147	1
Foreign exchange loss / (gain)	7,8	21	(41)
Depreciation and amortisation expense		11	19
Interest income		(2)	(9)
Changes in current tax liabilities		(73)	(27)
Changes in provisions		(108)	-
Changes in other current assets		(1,605)	(110)
Changes in accounts payable and accrued expenses		(3,931)	(2,893)
Cash used in discontinued operations		(525)	(2)
Net cash outflows to operating activities		(6,837)	(3,522)
Investing activities			
Interest received on cash deposits		2	9
Purchase of property, plant and equipment		(36)	-
Purchases of intangible assets		(13,717)	(2,363)
Net cash outflows to investing activities		(13,751)	(2,354)
Financing activities			
Net cash flows from financing activities		-	-
Effect of exchange rate changes on cash and cash equivalents		(16)	(40)
Change in cash and cash equivalents		(20,604)	(5,916)
Cash and cash equivalents, beginning of the period		142,588	41,216
Cash and cash equivalents, end of the period		121,984	35,300

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, 2014
(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, 2013, 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, 2013 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 realise 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 resolution of remaining political disputes in Iraq and the ability of the Company to obtain additional financing for its activities to develop, produce and sell economically recoverable reserves.

In the absence of current production revenues, the Company is currently dependent upon its existing financial resources, which include \$121.9 million of cash and cash equivalents as at March 31, 2014, 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.

The Company believes that based on the forecasts and projections it has prepared its current financial resources will be sufficient for the Company to satisfy its contractual obligations and commitments under the agreed work program over the next 12 months and to continue as a going concern for the foreseeable future. Nevertheless the possibility remains that the Company’s operations and current and future financial resources could be significantly affected by adverse exploration and appraisal results, geopolitical events in the region, macroeconomic conditions or other risks, including a risk regarding the level of funding which the Company may need to make in excess of its percentage share in the project. The potential that the Company’s financial resources are insufficient to fund its appraisal and development activities 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. The Company has a number of financing possibilities which it believes it would be able to pursue if and when required. Refer also to note 11.

SHAMARAN PETROLEUM CORP.
Notes to the Condensed Interim Consolidated Financial Statements (unaudited)
For the three months ended March 31, 2014
(Expressed in thousands of United States dollars unless otherwise stated)

3. Changes in accounting policies

The Company has adopted effective January 1, 2014 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.

IAS 32 - Financial Instruments Presentation, updates the application guidance in IAS 32, to clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet. The amendment becomes effective for annual periods beginning on or after 1 January 2014. This amendment does not have a material effect on the Company's consolidated financial statements.

IAS 36 - Impairment of Assets, addresses the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. The amendment becomes effective for annual periods beginning on or after 1 January 2014. This amendment affects presentation only and has been incorporated into the Company's financial reporting.

IFRIC 21 – Levies, addresses the accounting for an obligation to pay a levy that is not an income tax. The guidance addresses the accounting for a liability to pay a levy recognised in accordance with IAS 37 Provisions, and the liability to pay a levy whose timing and amount is certain. The amendment becomes effective for annual periods beginning on or after 1 January 2014. This guidance does not have a material effect on the Company's consolidated financial statements.

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, 2013.

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, Kurdistan. 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 10 for disclosure of the Company's discontinued operations.

6. General and administrative expense

	For the three months ended March 31,	
	2014	2013
General and administrative expenses incurred	1,619	1,420
General and administrative expenses capitalised as E&E assets	(1,063)	(970)
General and administrative expense	556	450

The Company capitalises 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 11.

SHAMARAN PETROLEUM CORP.
Notes to the Condensed Interim Consolidated Financial Statements (unaudited)
For the three months ended March 31, 2014
(Expressed in thousands of United States dollars unless otherwise stated)

7. Finance cost

	For the three months ended March 31,	
	2014	2013
Interest charges on bonds at coupon rate	4,360	-
Amortisation of bond related transaction costs	151	-
Interest expense on borrowings	4,511	-
Foreign exchange loss	21	-
Unwinding discount on decommissioning provision	7	-
Total finance costs before borrowing costs capitalised	4,539	-
Borrowing costs capitalised as E&E assets	(3,175)	-
Total finance costs	1,364	-

During the three months ended March 31, 2014 the Company incurred interest expense relating to senior secured bonds which carry an 11.5% fixed semi-annual coupon interest rate. Refer also to notes 11 and 15.

8. Finance income

	For the three months ended March 31,	
	2014	2013
Interest income	2	9
Foreign exchange gain	-	41
Total finance income	2	50

9. Taxation

	For the three months ended March 31,	
	2014	2013
Income tax expense from continuing operations	32	40

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.

10. Discontinued operations

During May of 2009 the Company sold to a third party 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,	
	2014	2013
General and administrative, and professional expenses	15	20
Net loss from discontinued operations	15	20

SHAMARAN PETROLEUM CORP.
Notes to the Condensed Interim Consolidated Financial Statements (unaudited)
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The major classes of assets and liabilities included in the consolidated balance sheet are as follows:

	At March 31, 2014	At December 31, 2013
Assets		
Prepaid expenses	2	3
	2	3
Liabilities		
Site restoration provision	261	783
Trade payables and accrued expenses	156	145
	417	928
Net liabilities	415	925

The provision relates to site restoration costs pertaining to the interests the Company held in petroleum properties located in the United States. The provision was determined based on the Company's 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.

11. Intangible assets

	Exploration and evaluation assets	Other intangible assets	Total
At January 1, 2013			
Cost	303,523	280	303,803
Accumulated amortisation	-	(254)	(254)
Net book value	303,523	26	303,549
For the year ended December 31, 2013			
Opening net book value	303,523	26	303,549
Additions	41,465	-	41,465
Amortisation expense	-	(24)	(24)
Net book value	344,988	2	344,990
At December 31, 2013			
Cost	344,988	288	345,276
Accumulated amortisation	-	(286)	(286)
Net book value	344,988	2	344,990
For the three months ended March 31, 2014			
Opening net book value	344,988	2	344,990
Additions	16,901	-	16,901
Net book value	361,889	2	361,891
At March 31, 2014			
Cost	361,889	290	362,179
Accumulated amortisation	-	(288)	(288)
Net book value	361,889	2	361,891

The net book value of E&E assets at March 31, 2014 relates to the Atrush Block and includes \$13.9 million of advances resulting from payments made on behalf of a partner in the Atrush Block. During the three month period ended March 31, 2014 the Company capitalised to E&E borrowing costs totalling \$3,175 (2013: \$nil) and general and administrative expenses of \$1,063 (2013: \$970). Refer also to notes 6, 7 and 15.

SHAMARAN PETROLEUM CORP.
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12. Property, plant and equipment

	Oil and gas assets	Computer equipment	Furniture and office equipment	Total
At January 1, 2013				
Cost	194	199	165	558
Accumulated depreciation	(29)	(190)	(82)	(301)
Net book value	165	9	83	257
For the year ended December 31, 2013				
Opening net book value	165	9	83	257
Exchange difference	-	-	1	1
Depreciation expense	(40)	(6)	(33)	(79)
Net book value	125	3	51	179
At December 31, 2013				
Cost	194	194	169	557
Accumulated depreciation	(69)	(191)	(118)	(378)
Net book value	125	3	51	179
For the three months ended March 31, 2014				
Opening net book value	125	3	51	179
Additions	-	36	-	36
Depreciation expense	(8)	(2)	(9)	(19)
Net book value	117	37	42	196
At March 31, 2014				
Cost	194	231	170	595
Accumulated depreciation	(77)	(194)	(128)	(399)
Net book value	117	37	42	196

13. Other current assets

	At March 31, 2014	At December 31, 2013
Advances to joint venture operator	1,562	-
Prepaid expenses	192	140
Other receivables	45	54
Total other current assets	1,799	194

14. Accounts payable and accrued expenses

	At March 31, 2014	At December 31, 2013
Accrued expenses	3,220	3,062
Trade payables	307	627
Net payables to joint venture partners	-	3,769
Total accounts payable and accrued expenses	3,527	7,458

SHAMARAN PETROLEUM CORP.
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15. Borrowings

At March 31, 2014 General Exploration Partners Inc. ("GEP"), a wholly owned indirect subsidiary of the Company, had outstanding \$150 million of senior secured bonds. The bonds have a five year maturity without amortisation, carry an 11.5% fixed semi-annual coupon and will be used to fund future capital expenditures related to the development of the Atrush Block. Of the Company's \$122.0 million of total cash and cash equivalents at March 31, 2014, \$113.5 million was held in accounts pledged to the bond trustee.

	For the three months ended March 31, 2014	For the year ended December 31, 2013
Opening balance	149,302	-
Accrued interest expense on bonds	4,360	2,252
Cumulative amortisation of bond related transaction costs	151	78
Net proceeds from bonds	-	146,972
Ending balance	153,813	149,302
- Current portion: accrued interest expense on bonds	6,612	2,252
- Non-current portion: borrowings	147,201	147,050

The remaining contractual obligation comprising repayment of principal and interest expense based on undiscounted cash flows at payment date, assuming the bonds are not early redeemed, are as follows:

	At March 31, 2014	At December 31, 2013
Less than one year	17,250	17,250
Between two and five years	216,201	216,050
Total	233,451	233,300

Refer also to notes 7, 11 and 20.

16. Provisions

The Company has provided for decommissioning and site restoration costs in relation to activities undertaken to date on the Atrush Block in Kurdistan.

	At March 31, 2014	At December 31, 2013
Opening balance	1,185	120
Changes in discount and inflation rates	44	(46)
Unwinding discount on decommissioning provision	7	1
Changes in estimates and obligations incurred	(159)	1,110
Total decommissioning and site restoration provisions	1,077	1,185

17. Share capital

The Company is authorised 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, 2013	810,983,860	534,068
At December 31, 2013	810,983,860	534,068
At March 31, 2014	810,983,860	534,068

SHAMARAN PETROLEUM CORP.
Notes to the Condensed Interim Consolidated Financial Statements (unaudited)
For the three months ended March 31, 2014
(Expressed in thousands of United States dollars unless otherwise stated)

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.

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, 2013	2,623,334	0.59
Granted in 2013	5,640,000	0.36
At December 31, 2013	8,263,334	0.43
At March 31, 2014	8,263,334	0.43
Share options exercisable:		
At December 31, 2013	4,503,333	0.50
At March 31, 2014	4,503,333	0.50

The Company recognises 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, 2014	For the year ended December 31, 2013
Expected dividend yield	0%	0%
Risk-free interest rate (weighted average)	2.50%	2.50%
Expected share price volatility (weighted average)	84.74%	84.74%
Expected option life in years (weighted average)	4.42	4.42
Grant date fair value (weighted average)	CAD 0.43	CAD 0.43

Share based payments expense for the three months ended March 31, 2014 was \$147 (2013: \$1).

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.

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)

19. Financial instruments

Financial assets

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

	Carrying and fair values ¹	
	At March 31, 2014	At December 31, 2013
Cash and cash equivalents ²	121,984	142,588
Advances to joint venture operator ²	1,562	-
Other receivables ²	45	54
Total financial assets	123,591	142,642

Financial assets classified as other receivables are initially recognised at fair value and are subsequently measured at amortised 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 ³	Carrying and fair values ¹	
		At March 31, 2014	At December 31, 2013
Borrowings	Level 2	147,201	147,050
Accrued interest on bonds	Level 2	6,612	2,252
Accounts payable and accrued expenses ²		3,527	7,458
Provisions for decommissioning costs	Level 2	1,077	1,185
Financial liabilities of discontinued operations ²		417	928
Current tax liabilities ²		19	92
Total financial liabilities		158,853	158,965

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

¹ The carrying amount of the Company's financial assets and liabilities approximate their fair values at the balance sheet dates, none of which are past due.

² No valuation techniques have been applied to establish the fair value of these financial instruments they are either cash and cash equivalents or, due to the short term nature, readily convertible to or settled with cash and cash equivalents.

³ *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.

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Book equity ratio

In accordance with the terms of the Company's senior secured bond agreement it is required to maintain a Book Equity ratio, defined as shareholders' equity divided by total assets, of no less than 40%. Refer also to note 15. The Company's book equity ratio is as follows:

	At March 31, 2014	At December 31, 2013
Shareholders' equity	327,019	328,989
Total assets	485,872	487,954
Book equity ratio	67%	67%

20. Commitments

As at March 31, 2014 the outstanding commitments of the Company were as follows:

	For the year ended March 31,				
	2015	2016	2017	Thereafter	Total
Atrush Block development and PSC	60,610	120	120	2,050	62,900
Office and other	84	-	-	-	84
Total commitments	60,694	120	120	2,050	62,984

Amounts relating to the Atrush block represent the Company's unfunded share of the approved work program and budget under the Atrush block field development plan and other obligations under the Atrush PSC.

Refer also to notes 15 and 21.

21. Interests in joint operations and other entities

Interests in joint operations - Atrush Block Production Sharing Contract

ShaMaran holds a 20.1% direct interest in the PSC through GEP. TAQA Atrush B.V. ("TAQA"), a subsidiary of Abu Dhabi National Energy Company PJSC, is the operator with a 39.9% direct interest, Marathon Oil KDV B.V. holds a 15% direct interest, and the remaining 25% interest was acquired by the KRG on March 12, 2013. Refer also to notes 11 and 20.

Under the terms of the PSC the 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. All qualifying petroleum costs incurred by the Contractor shall be recovered from a portion of available petroleum production, defined under the terms of the PSC. All modifications to the PSC are subject to the approval of the KRG. The Company is responsible for its pro-rata share of the costs incurred in executing the development work program on the Atrush Block which commenced on October 1, 2013.

Information about subsidiaries

The consolidated financial statements of the Company include:

Subsidiary	Principal activities	Country of Incorporation	% equity interest as at	
			March 31, 2014	December 31, 2013
ShaMaran Petroleum Holdings Coöperatief U.A.	Oil exploration and production	The Netherlands	100	100
ShaMaran Ventures B.V.	Oil exploration and production	The Netherlands	100	100
General Exploration Partners, Inc.	Oil exploration and production	Cayman Islands	100	100
ShaMaran Petroleum B.V.	Oil exploration and production	The Netherlands	100	100
ShaMaran Services S.A.	Technical and admin. Services	Switzerland	100	100
Bayou Bend Petroleum U.S.A. Ltd	Discontinued operations	United States of America	100	100
Summit Energy Company LLC.	Discontinued operations	United States of America	100	100

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22. Related party transactions

Transactions with corporate entities

	Purchases of services for the three months ended		Amounts owing at the balance sheets dates,	
	March 31, 2014	March 31, 2013	March 31, 2014	December 31, 2013
Lundin Petroleum AB	110	106	90	89
Namdo Management Services Ltd.	51	76	15	15
McCullough O'Connor Irwin LLP	6	(2)	12	14
Vostok Nafta Investment Ltd.	-	6	-	-
Total	167	186	117	118

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, 2014 of \$110 (2013: \$106) were comprised of G&G and other technical service costs of \$6 (2013: \$13), investor relations services of \$6 (2013: \$nil), reimbursement for Company travel and related expenses of \$1 (2013: \$nil), office rental, administrative and building services of \$97 (2013: \$93).

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.

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

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

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
<p>Keith C. Hill Director, Chairman Ontario, Canada</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 Schneiter Director Anieres, Switzerland</p> <p>J. Cameron Bailey Director Calgary, Alberta</p>
OFFICERS
<p>Brenden Johnstone Chief Financial Officer Geneva, Switzerland</p> <p>Kevin E. Hisko Corporate Secretary Vancouver, British Columbia</p>

CORPORATE INFORMATION
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