**SHAMARAN PETROLEUM CORP.**

**MANAGEMENT DISCUSSION AND ANALYSIS**

**For the three and six months ended June 30, 2013**

*(Expressed in United States Dollars unless otherwise indicated)*

---

Management's discussion and analysis ("MD&A") of the financial and operating results of ShaMaran Petroleum Corp. ("ShaMaran" together with its subsidiaries the "Company") is prepared as of August 16, 2013. The MD&A should be read in conjunction with the unaudited condensed interim consolidated financial statements for the three and six months ended June 30, 2013 together with the accompanying notes.

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

**Overview**

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

**Highlights**

- A Field Development Plan for the Atrush Block was submitted for approval to the KRG on May 6, 2013 which is in accordance with the terms of the Atrush Block PSC.
- The Atrush-3 appraisal well, located 6.5 kilometers to the east of the Atrush-2 appraisal well, was spudded on March 25, 2013 and reached total depth ("TD") of 1,806 meters on June 23, 2013. The well testing program is nearing conclusion with results expected by end of August 2013.
- The Company announced on February 4, 2013 an increase of 35% in Best Estimate 2C Contingent Resources (gross) for the Atrush Block, from 465 MMBOE at December 31, 2011 to 627 MMBOE at the end of 2012. The estimates were provided by the Company's independent qualified resources evaluator, McDaniel & Associates Consultants Ltd., in a Detailed Property Report prepared as at December 31, 2012.
- On March 12, 2013 the Contractor entities to the Atrush Block PSC were notified by the Kurdistan regional Government ("KRG") that it had exercised its option to acquire a 25% Government Interest in accordance with the provisions of the Atrush Block PSC.
- At June 30, 2013 the Company had a cash balance of $28.6 million and working capital of $18.4 million.

**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.

During the second quarter of the year 2013 operations on the Atrush-3 well continued. After a sidetrack due to mechanical issues, the Atrush-3ST1 well reached a final drilled depth of 1,806 meters on June 23, 2013. After logging and running production casing the testing operations commenced on July 9, 2013 with three drill stem tests ("DST"s) being conducted during July and August 2013. In June 2013 an interference test was successfully completed between the AT-1 and AT-2 wells which provided valuable reservoir information.

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 made on November 7, 2012.

***Atrush Block***

***a. <u>Location and operational history</u>***

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

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

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

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

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

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

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

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

On November 7, 2012 GEP and Marathon, collectively being the Contractor under the Atrush Block PSC, submitted to the Atrush Block Management Committee a Declaration of Commercial Discovery ("DCD") with effect from November 7, 2012 under Clause 12.6 (a) of the PSC. The DCD was submitted together with an Appraisal Report covering the Atrush field. In May 2013 the Operator (TAQA) submitted a Field Development Plan to the Atrush Block Management Committee within the required 180 days following the DCD.

### *b. Recent Operations and Results*

#### *i. Field Development Plan and First Phase Development*

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 made on November 7, 2012. The FDP was presented in detail to the Ministry of Natural Resources ("MNR") in June 2013 and discussions are continuing with MNR towards obtaining necessary approval for the plan.

#### *ii. Resources and Reserves*

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

#### *iii. Atrush-1 / Atrush-2 Interference Test*

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

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

The Atrush-3 appraisal well was spudded on March 23, 2013 using the DQE31 drilling rig. The well is situated approximately 9.6km to the east of the Atrush-1 discovery well and 6.5 km to the east of the Atrush-2 appraisal well. The Atrush-3 well is an important step out from the previous two Atrush wells and is targeting the Oil Water Contact / Free Water Level in the BSAM reservoir section. The original AT-3 wellbore reached 1,004 meters MD before mechanical issues required a sidetrack in the Cretaceous section. Sidetrack well AT-3 ST1 commenced on May 7, 2013.

Well AT-3 ST1 encountered the top of the BSAM and Butmah reservoirs 163 meters and 171 meters down-dip respectively of the AT-2 well and are therefore the deepest penetrations to date at these levels in the Atrush structure. A successful coring campaign was completed recovering seven cores totaling more than 72 meters from the BSAM reservoir. The well reached final TD of 1,806 meters on June 23, 2013 and final logs were run including advanced reservoir evaluation tools. Logs confirmed that the entire BSAM section was in the oil column and that the Butmah section was most likely below the Oil Water Contact / Free Water Level as anticipated pre-drilling, matching data acquired in the two previous wells. The well testing program consisting of 3 DSTs is nearing conclusion with results expected by end of August 2013.

v. ***Atrush-4 Appraisal / Development Well***

The AT-4 will be drilled at high deviation up-dip towards the undrilled crest of the structure from the AT-1 drill pad. Civil works are in progress to commence drilling the well in the third quarter of 2013.

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

### Selected quarterly information

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

| *(In $000s, except per share data)* | For the quarter ended | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Jun 30 2013 | Mar 31 2013 | Dec 31 2012 | Sep 30 2012 | Jun 30 2012 | Mar 31 2012 | Dec 31 2011 | Sep 30 2011 |
| **Continuing operations** | | | | | | | | |
| General and admin. (expense) / rec. | (355) | (450) | (1,497) | (512) | (459) | (384) | (283) | 202 |
| Share based payments (expense) / rec. | (565) | (1) | - | (2) | (8) | 2 | (21) | (70) |
| Depreciation and amortisation | (16) | (19) | (40) | (46) | (48) | (49) | (55) | (58) |
| Share of income / (loss) of associate | - | - | 129,209 | (97) | (46) | (66) | 11 | (173) |
| Relinquishment costs | - | - | - | - | - | (25,732) | - | - |
| Impairment (loss) / recovery | (84) | - | 1,255 | (138) | 945 | (248) | (207,504) | - |
| Gain on sale of asset | - | - | - | 1,100 | - | - | - | - |
| Gain on fair valuation of assets | - | - | 102,735 | - | - | - | - | - |
| Finance cost | (23) | - | (24) | (393) | (360) | - | (251) | (2,780) |
| Finance income | 10 | 50 | - | 1 | 25 | 391 | 552 | 147 |
| Income tax expense | (10) | (40) | (26) | (11) | (28) | (24) | (31) | (32) |
| Net (loss) / inc. from continuing ops. | (1,043) | (460) | 231,612 | (98) | 21 | (26,110) | (207,582) | (2,764) |
| **Discontinued operations** | | | | | | | | |
| Expenses | (7) | (20) | 1 | (12) | (13) | (37) | (34) | (46) |
| Net (loss) / inc. from discontinued ops. | (7) | (20) | 1 | (12) | (13) | (37) | (34) | (46) |
| **Net (loss) / income** | (1,050) | (480) | 231,613 | (110) | 8 | (26,147) | (207,616) | (2,810) |
| | | | | | | | | |
| Basic income / (loss) in $ per share: | | | | | | | | |
| Continuing operations | - | - | 0.29 | - | - | (0.03) | (0.28) | - |
| Discontinued operations | - | - | - | - | - | - | - | - |
| | - | - | 0.29 | - | - | (0.03) | (0.28) | - |
| Diluted income / (loss) in $ per share: | | | | | | | | |
| Continuing operations | - | - | 0.29 | - | - | (0.03) | (0.28) | - |
| Discontinued operations | - | - | - | - | - | - | - | - |
| | - | - | 0.29 | - | - | (0.03) | (0.28) | - |

**Summary of principal changes in second quarter information**

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

**Results of continuing operations**

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

***General and administrative expense***

| *In $000* | **Three months ended June 30,** | | **Six months ended June 30,** | |
|---|---|---|---|---|
| | **2013** | **2012** | **2013** | **2012** |
| Salaries and benefits | 568 | 630 | 1,494 | 1,427 |
| Management and consulting fees | 150 | 218 | 326 | 543 |
| General and other office expenses | 127 | 136 | 255 | 353 |
| Listing costs and investor relations | 79 | 137 | 150 | 179 |
| Legal, accounting and audit fees | 22 | 192 | 122 | 305 |
| Travel expenses | 58 | 61 | 77 | 201 |
| General and administrative expense incurred | 1,004 | 1,374 | 2,424 | 3,008 |
| General and administrative expense capitalized as E&E assets | (649) | (915) | (1,619) | (2,165) |
| Net general and administrative expense | 355 | 459 | 805 | 843 |

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

The decrease in general and administrative expenses incurred and capitalized in the three and six months ended June 30, 2013 relative to the amounts incurred and capitalized over the comparable periods of the prior year is primarily due to a decrease in the Company's technical and support activities between the comparative periods.

***Share based payments expense***

| *In $000* | **Three months ended June 30,** | | **Six months ended June 30,** | |
|---|---|---|---|---|
| | **2013** | **2012** | **2013** | **2012** |
| Share based payments expense | 565 | 8 | 566 | 6 |

The share based payments expense results from the vesting of stock options granted in the years 2010, 2011 and 2013. In the first six months of the year 2013, 5,640,000 stock options were granted (year 2011: 25,000; year 2010: 1,390,000). No options were granted in the year 2012. The Company uses the fair value method of accounting for stock options granted to directors, officers, employees and consultants whereby the fair value of all stock options granted is recorded as a charge to operations. The fair value of common share options granted is estimated on the date of grant using the Black-Scholes option pricing model.

***Depreciation and amortisation expense***

| *In $000* | **Three months ended June 30,** | | **Six months ended June 30,** | |
|---|---|---|---|---|
| | **2013** | **2012** | **2013** | **2012** |
| Depreciation and amortisation expense | 16 | 48 | 35 | 97 |

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

***Share of loss of associate***

| *In $000* | **Three months ended June 30,** | | **Six months ended June 30,** | |
|---|---|---|---|---|
| | **2013** | **2012** | **2013** | **2012** |
| Loss from investment in associate | - | 46 | - | 112 |

The loss from investment in associate in the three and six months ended June 30, 2012 related to the Company's pro-rata portion of the net income of GEP in conducting petroleum operations on the Atrush Block in Kurdistan. Following the acquisition of control of GEP by the Company in December 2012 the Company is required by IFRS to now consolidate GEP's financial results and position in the year 2013 and therefore this interest is no longer reported as an investment in associate.

***Relinquishment costs***

| *In $000* | **Three months ended June 30,** | | **Six months ended June 30,** | |
|---|---|---|---|---|
| | **2013** | **2012** | **2013** | **2012** |
| Relinquishment fees | - | - | - | 25,000 |
| Costs to wind up Pulkhana and Arbat operations | - | - | - | 732 |
| Total relinquishment costs | - | - | - | 25,732 |

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

***Impairment loss***

| *In $000* | **Three months ended June 30,** | | **Six months ended June 30,** | |
|---|---|---|---|---|
| | **2013** | **2012** | **2013** | **2012** |
| Write down drilling inventory to net realizable value | 84 | 138 | 84 | 451 |
| Recovery of impairment losses on E&E Assets | - | (1,100) | - | (1,100) |
| Loss / (recovery) of impairment loss on PP&E Assets | - | 17 | - | (48) |
| Impairment loss / (recovery) | 84 | (945) | 84 | (697) |

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

***Finance cost***

| *In $000* | Three months ended June 30, 2013 | Three months ended June 30, 2012 | Six months ended June 30, 2013 | Six months ended June 30, 2012 |
|---|---|---|---|---|
| Foreign exchange loss | 23 | - | - | - |
| Interest expense on equity based financing fee | - | 360 | - | 360 |
| Total finance cost | 23 | 360 | - | 360 |

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

The interest expense on equity based financing fee in the first six months of the year 2012 related to a loan entered into with two investment companies who jointly are principal shareholders of the Company. Under the terms of the loan the investment companies received an aggregate of 3,000,000 common shares of the Company issued on April 2, 2012 at $0.24 per share as an equity based financing fee. The Company has expensed the pro-rata portion of the total equity based financing incurred in the reporting periods relative to the total six month loan term.

***Finance income***

| *In $000* | Three months ended June 30, 2013 | Three months ended June 30, 2012 | Six months ended June 30, 2013 | Six months ended June 30, 2012 |
|---|---|---|---|---|
| Interest income | 10 | 24 | 19 | 391 |
| Foreign exchange gain | - | 1 | 18 | 25 |
| Total finance income | 10 | 25 | 37 | 416 |

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

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

***Income tax expense***

| *In $000* | Three months ended June 30, 2013 | Three months ended June 30, 2012 | Six months ended June 30, 2013 | Six months ended June 30, 2012 |
|---|---|---|---|---|
| Income tax expense | 10 | 28 | 50 | 52 |

Income tax expense relates to provisions for income taxes on service income generated in Switzerland which is determined on the basis of the incurred cost of the related services. The amount reported in the three and six months ended June 30, 2013 has decreased relative to the amount reported in the comparable period of 2012 due to less service costs incurred in the current reporting period.

**Results of discontinued operations**

The main components of discontinued operations are explained as follows:

***Expenses***

| *In $000* | Three months ended June 30, 2013 | 2012 | Six months ended June 30, 2013 | 2012 |
|---|---|---|---|---|
| Legal, accounting and audit fees | 5 | 2 | 23 | 30 |
| General and other office expenses | 2 | 11 | 4 | 20 |
| Total expenses | 7 | 13 | 27 | 50 |

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

**Off-balance sheet arrangements**

The Company has no off-balance sheet arrangements.

**Outstanding share data**

There was no change in the first half of 2013 in the number of common share of the Company outstanding which was 810,983,860 at December 31, 2012, June 30, 2013 and at the date of this MD&A.

There were 8,263,334 stock options outstanding at June 30, 2013 under the Company's employee incentive stock option plan outstanding which is an increase of 5,640,000 from the number outstanding at January 1, 2013. During the six months ended June 30, 2013 there were 5,640,000 stock options granted (2012: nil), no stock options expired (2012: 450,000). No stock options were forfeited (2012: 135,000) and no stock options were exercised (2012: nil) during the first half of 2013. There has been no further movement in stock options from June 30, 2013 to the date of this MD&A.

The Company has no warrants outstanding.

**Related party transactions**

*In $000*

| | Purchases of services for periods ended June 30, Three months | | Six months | | Amounts owing at the reporting dates | |
|---|---|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 | 30 Jun 13 | 31 Dec 12 |
| Namdo Management Services Ltd. | 55 | 97 | 131 | 167 | 12 | 28 |
| Mile High Holdings Ltd. | - | - | - | - | - | 19 |
| McCullough O'Connor Irwin LLP | 9 | 41 | 7 | 57 | 10 | 22 |
| Vostok Naphta Investment Ltd. | 7 | 3 | 13 | 13 | - | - |
| Lundin family | - | 360 | - | 360 | - | - |
| Lundin Petroleum AB | 101 | 152 | 207 | 324 | 72 | 75 |
| **Total** | **172** | **653** | **358** | **921** | **94** | **144** |

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

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

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

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

The Company receives services from various subsidiary companies of Lundin Petroleum AB ("Lundin"), a shareholder of the Company. Lundin charges during the three and six months ended June 31, 2013 of $101 (2012: $152) and $207 (2012: $324) were comprised of G&G and other technical service costs of $8 (2012: $68) and $21 (2012: $125), reimbursement for Company travel and related expenses of $nil (2012: $1) and $nil (2012: $1), office rental, administrative and building services of $93 (2012: $83) and $186 (2012: $198).

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

**Liquidity and capital resources**

Working capital at June 30, 2013 was $18.4 million compared to negative $(6.2) million at June 30, 2012.

The overall cash position of the Company decreased by $12.6 million during the first half of 2013 compared to a decrease in cash of $43.1 million during the comparable period of 2012. The main components of the movement in funds are discussed in the following paragraphs.

The operating activities of the Company during the first half of 2013 resulted in a decrease in the cash position by $2.3 million compared to a decrease by $44.3 million in the first half of 2012. A net loss of $1.5 million as well as $0.8 million net outflows on working capital and non-cash expenses are the main reasons for the decrease in the first half 2013 cash position due to operating activities.

Net cash outflows to investing activities in the first half of 2013 were $10.3 million compared to cash outflows in the amount of $9.1 million in the comparable period of the year 2012. Substantially all of the cash outflows on investing activities in the current year relate to the Atrush Block appraisal and development work program.

There were no cash flows due to finance activities during the six months ended June 30, 2013 and 2012.

The share based payments reserve increased by $566 in the first half of 2013 (2012: $6) due to share based payments expense of $566 incurred during the period. There were no stock options exercised during this period (2012: nil). When options are granted the Black-Scholes option value method is used to calculate a value for the stock options. When the options are exercised the applicable amounts of share based payments are transferred from the share based payments reserve to share capital.

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

**Commitments**

***Atrush Block Production Sharing Contract ("PSC")***

ShaMaran holds a 20.1% direct interest in the PSC through its wholly owned subsidiary General Exploration Partners Inc. TAQA Atrush B.V. ("TAQA"), a subsidiary of Abu Dhabi National Energy Company PJSC, is the operator with a 39.9% direct interest, Marathon Oil KDV B.V. holds a 15% direct interest, and the remaining 25% interest is held by the Kurdistan Regional Government (acquired on March 12, 2013).

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

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

| | For the year ending June 30, | | | | |
|---|---|---|---|---|---|
| | **2014** | **2015** | **2016** | **Thereafter** | **Total** |
| Atrush Block | 2,804 | 120 | 120 | 2,052 | 5,096 |
| Office and other | 69 | - | - | - | 69 |
| Total commitments | 2,873 | 120 | 120 | 2,052 | 5,165 |

**Financial Instruments**

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

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

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

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

*Credit Risk*

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

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

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

*Liquidity Risk*

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

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

*Market Risk*

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

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

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

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

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

**Risks and Uncertainties**

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

*Political Issues*

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

*Uncertainty of title*

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

*Legislative Issues*

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

*Marketing, Markets and Transportation*

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

*Exploration, Development and Production Risks*

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

*Project Risks*

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

*Substantial Capital Requirements*

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

*Additional Funding Requirements*

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

*Dilution*

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

## Accounting Policies and Critical Accounting Estimates

*Use of Estimates*

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

*Accounting for Oil and Gas Operations*

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

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

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

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

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

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

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

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

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

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

## Outlook

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

*Atrush Block*

The Operator (TAQA) submitted to the KRG for approval a Field Development Plan ("FDP") in May 2013 and discussions will continue with the Ministry of Natural Resources to obtain necessary approvals. In the meantime, work will continue with preparations for the implementation of the Phase 1 development.

The Atrush-3 appraisal well testing program is nearing conclusion with results expected to be announced by the end of August 2013.

Final processing of the complete 3D seismic survey is expected in the third quarter of 2013. The enhanced data will be used for the development drilling program. The Atrush-4 appraisal/development well is planned to commence drilling in the third quarter 2013. Atrush-4 will be a high-deviation appraisal/development well from the AT-1 drilling pad targeting the undrilled crest of the field.

*New Ventures*

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

*Budget*

The Board of Directors provisionally approved a revised budget for the year 2013 which includes net capital spending on the Atrush Block appraisal program and G&A support and corporate costs totaling $40.6 million. At the end of June 2013 the Company had spent $11.2 million of the budgeted total for the year 2013. The Company is currently considering a number of financing initiatives.

*General*

The security situation in Kurdistan remains stable with no major reported incidents. The region continues to see a rapid development in infrastructure and a significant increase in the availability of oil and gas services in the country. A number of major international oil companies, including ExxonMobil, Chevron, Marathon, Repsol, Total and Gazprom, have acquired properties in Kurdistan over the last two years. A number of significant discoveries in this region continue to be reported and many are now undergoing appraisal and development.

## Forward-Looking Statements

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

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

**Additional Information**

Additional information related to the Company is available on SEDAR at **www.sedar.com** and on the Company's web-site at **www.shamaranpetroleum.com**.