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

MANAGEMENT DISCUSSION AND ANALYSIS
(Amounts in United States Dollars unless otherwise indicated)
Three and Nine Months Ended September 30, 2009 and 2008

Management's discussion and analysis ("MD&A") of ShaMaran Petroleum Corp.'s (formerly Bayou Bend Petroleum Ltd.) (the "Company" or "ShaMaran") financial condition and results of operations should be read in conjunction with the unaudited consolidated financial statements for the three and nine months ended September 30, 2009 and 2008 and related notes therein, prepared in accordance with Canadian generally accepted accounting principles. The effective date of the MD&A is November 24, 2009. Additional information related to the Company is available on SEDAR at www.sedar.com and on the Company's web-site at www.shamaranpetroleum.com.

Overview

ShaMaran is a Canadian-based oil and gas company that formerly held various interests in oil and gas exploration and development properties in the USA. Prior to October 21, 2009, the Company operated under the name Bayou Bend Petroleum Ltd. and traded on the TSX Venture Exchange under the symbol "BBP". On October 21, 2009, the Company changed its name to ShaMaran Petroleum Corp. and started trading under the symbol "SNM".

On May 28, 2009, the Company sold substantially all of its oil and gas properties located in the United States in the Gulf of Mexico to a third party, Dynamic Offshore Resources, LLC.

On August 31, 2009, the Company announced that it had signed agreements for and acquired working interest in three separate exploration and development blocks with the Kurdistan Regional Government ("KRG") in the southeastern area of the autonomous region of Kurdistan in Northern Iraq. Under the terms of these agreements, the Company will pursue oil and gas exploration and development operations which are governed by production sharing contracts ("PSCs") signed with the KRG. Entry into the PSCs was subject to shareholder and TSX Venture Exchange approval, which was obtained subsequent to the third quarter, during October 2009. These transactions will be recorded in the fourth quarter financial statements.

Subsequent to the third quarter, in October 2009, the Company fulfilled the release conditions related to the issuance of 140 million subscription receipts resulting in gross proceeds to the Company of CDN$105 million. Each subscription receipt entitled the holder to receive one common share of the Company without further payment or action on the part of the holder. The net proceeds will be used to fund commitments related to the Kurdish PSCs, for ongoing exploration and development activity and for general corporate purposes.

Kurdistan

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

Pulkhana Block

The Pulkhana block was one of the original PSCs awarded in 2003 to Petoil (a Turkish company) and was ratified by the Iraq Federal government prior to the new Kurdistan Region hydrocarbon law being passed in 2007. It is an appraisal/development project of a field which was discovered in 1959 and flowed over 2900 barrels of oil per day from a well which entered two fractured carbonate reservoirs. The role of Petoil on the Pulkhana PSC was secured in principle in August 2008, subject to Petoil reaching an agreement with KRG on their level of participation and the introduction of another acceptable party as an operator. The Company plans to acquire 250 km of two dimensional seismic and drill 3 appraisal wells in the first 3 year exploration sub-period in order to confirm the size and economic viability of the development of the Pulkhana field. The Company will then have the option to continue on to a further two year exploration sub-period and if development is warranted, a development period of up to 20 years. The Company will be operator of the project with a 60% working interest. Petoil retains a 20% interest and the KRG holds the remaining 20%. The Company will be obligated to pay 100% of the costs of the first exploration sub-period and 75% of the costs of the second sub-period. Fiscal terms include a 10% royalty and variable profit splits based on a profitability factor to the KRG. The Company has the right to recover costs using up to 40% of the produced oil and 50% of the produced gas. Capacity building bonuses of $42.5 million were disbursed subsequent to the end of the third quarter and 65 million common shares of ShaMaran will be issued to the KRG on or before January 25th, 2010, as part of the Company's cost of acquisition and social responsibility to the Kurdistan Region. An additional 50 million common shares of the Company are conditionally issuable to the KRG within 30 days of the expiry of the first sub-period, if the Pulkhana PSC is still then in effect. In addition, subsequent to the third quarter, the Company paid $15 million to Petoil under the terms of a participation agreement.

Arbat Block

The Arbat Block (formerly Block G) is located adjacent to the Miran Block of Heritage and Block 9 recently signed by Talisman Energy Corp. It is an exploration block with three identified surface anticlinal features and is on trend with the Miran East discovery of Heritage Oil Plc which has been quoted in the press as containing large volumes of oil in place. Under the terms of the PSC, which was also originally approved as part of the

Pulkhana approval, the Company is obliged to acquire 350 kilometers of 2D seismic and drill 2 wells in the first 3 year exploration sub-period. The Company will hold a 60% working interest and operatorship with the remaining 40% held by the KRG. The Company is obliged to pay 100% of the costs associated during the exploration period. Capacity building bonuses (social responsibility) of $20 million were disbursed subsequent to the end of the third quarter and 35 million common shares of ShaMaran will be issued to the KRG on or before January 25th, 2010. All other fiscal terms are similar to those described in respect of the Pulkhana Block

Block K42

Block K42 is located adjacent to the Pulkhana field and directly on trend with the 1.1 billion barrel Jambur field. It is currently operated by Oil Search (Iraq) Ltd which holds a 60% working interest in an option agreement signed on July 16, 2009 which permits 18 months to acquire 200 kilometers of seismic data. After this date, Oil Search would be allowed to convert under certain conditions to a PSC with standard terms and work commitments. ShaMaran has signed an amendment to that agreement which allows it to purchase the KRG's third party reserved 20% interest and thus become a participant to the option agreement and any resultant PSC for Block K42. In consideration for this interest, ShaMaran paid a signature bonus to the KRG of $5 million and is obliged to pay 25% of the past costs expended on Block K42.

The Kurdish projects were originally identified and evaluated by Lundin Petroleum B.V. ("LUPE"), which will also provide support to the Company in terms of future technical services and certain corporate guarantees. In consideration of these efforts, subsequent to the third quarter, the Company issued LUPE 50 million common shares of the Company. An additional 50 million common shares of the Company are contingently issuable to LUPE, upon the approval of a Pulkhana development plan. The Company incurred $4.5 million of acquisition costs directly related to the acquisition of its interests in Kurdistan.

Financing

Subsequent to the third quarter, in October 2009, the Company fulfilled the release conditions related to the issuance of 140 million subscription receipts ("Subscription Receipts") at a price of CDN$0.75 per Subscription Receipt, resulting in gross proceeds of CDN$105 million. Each Subscription Receipt entitled the holder to receive one common share of the Company without further payment or action on the part of the holder, upon the receipt of required shareholder and TSX Venture Exchange approvals with respect to the Company's agreements for the acquisition of working interests in the exploration and development blocks with the Kurdistan Regional Government in the region of Kurdistan in Northern Iraq, as described above. The Subscription Receipts as well as the Common Shares issuable thereunder are subject to a four month hold period under applicable Canadian securities laws.

The net proceeds were released to the Company, in October 2009, and will be used to fund commitments related to the Kurdish PSCs, for ongoing exploration and development activity and for general corporate purposes.

Selected Quarterly Information

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

($000s, except per share data)	Sep 30 2009	Jun 30 2009	Mar 31 2009	Dec 31 2008	Sep 30 2008	Jun 30 2008	Mar 31 2008	Dec 31 2007
Revenue - oil & gas sales, net	$0	$943	$715	$1,663	$1,583	$798	$965	$1,181
Net income (loss)	$3,155	$3,562	($4,058)	($72,156)	($16,154)	($5,793)	($3,947)	($46,870)
Net income (loss) per share - basic	$0.01	$0.01	($0.01)	(0.24)	($0.05)	($0.02)	($0.01)	($0.15)
Net income (loss) per share - diluted	$0.01	$0.01	($0.01)	($0.24)	($0.05)	($0.02)	($0.01)	($0.15)
Exploration & development expenditures	($124)	$0	450	10,959	$4,146	$5,442	$256	$28,127
Total assets	$60,968	$57,463	$59,740	$63,594	$134,245	$150,203	$152,988	$166,841
Working capital surplus	$58,189	$54,358	$37,545	$41,595	$59,031	$66,621	$76,465	$80,120
Shareholders' equity	$57,839	$54,008	$50,408	$54,466	$126,544	$142,560	$147,857	$151,665
Common shares outstanding	309,546	308,846	308,756	308,756	308,756	308,756	308,756	308,256

The Company follows the successful efforts method of accounting for its oil and gas properties.

Production

	For the Quarter Ended							
	Sep 30 2009	Jun 30 2009	Mar 31 2009	Dec 31 2008	Sep 30 2008	Jun 30 2008	Mar 31 2008	Dec 31 2007
Oil & gas sales, net ($000's)	$ -	$ 943	$ 715	$ 1,663	$ 1,583	$ 798	$ 965	$ 1,181
Oil (net bop/d)	-	62	79	68	48	27	30	32
Natural gas (net mcf/d)	-	1,335	1,028	1,927	1,277	362	835	1,572
Total (net mcfe/d)*	-	1,709	1,504	2,337	1,565	524	1,016	1,766
Average selling price, net:								
Oil - per bbl	$ -	$ 53.18	$ 32.52	$ 69.14	$ 124.58	$ 123.21	$ 91.52	$ 91.52
Gas - per mcf	$ -	$ 3.69	$ 5.07	$ 8.02	$ 8.71	$ 9.69	$ 9.13	$ 6.16

* Production information is commonly reported in units of barrel of oil equivalent ("boe"), or if primarily a producer of natural gas in units of thousand cubic feet

equivalent ("mcfe"), which may be misleading, particularly if used in isolation. For purposes of computing such units, thousand cubic feet of natural gas equivalent units have been calculated using an energy equivalence conversion rate of six thousand cubic feet of natural gas to one barrel of oil (6:1). The conversion ratio of 6:1 is based on an energy equivalency conversion method, which is primarily applicable at the burner tip and does not represent value equivalence at the wellhead.

On May 28, 2009, the Company sold substantially all of its oil and gas properties located in the United States in the Gulf of Mexico to a third party.

On July 24, 2008, the Company commenced production on its Eagle's Nest well. The well was producing 32.3 MMCF/D on an 8/8th basis at March 31, 2009. The well, in which the Company held a 12.453525% working interest and an 8.935404% net revenue interest, was sold on May 28, 2009.

Production from the Company's Greylock well was stopped on August 30, 2008 due to Hurricanes Gustav and Ike and did not recommence due to damage to Marathon's Burns Point plant until December 4, 2008. Production from the Company's Eagle's Nest well was also stopped on August 30, 2008 due to the hurricanes. When production recommenced on September 29, 2008, the production rate per day was approximately 50% of the pre-storm rate due to transportation pipeline damage. These pipeline damages were repaired by the transport operator in late December 2008 with full production being achieved in late March 2009. These properties were included in the sale on May 28, 2009.

Results of Operations

	For the Quarter Ended (in $000s)							
	Sep 30 2009	Jun 30 2009	Mar 31 2009	Dec 31 2008	Sep 30 2008	Jun 30 2008	Mar 31 2008	Dec 31 2007
Oil and gas sales	$ -	$ 1,190	$ 899	$ 2,241	$ 2,068	$ 1,121	$ 1,293	$ 1,614
Royalties	-	(247)	(184)	(578)	(485)	(323)	(328)	(433)
Oil and gas sales, net	-	943	715	1,663	1,583	798	965	1,181
Operating	-	(183)	(591)	(832)	(630)	(272)	(468)	(397)
Exploration	-	(55)	(755)	(2,978)	(2,365)	(2,317)	(2,840)	(1,916)
Dry hole	-	(15)	(6)	(7,748)	(1,711)	(3,257)	-	(35,753)
Impairment of properties	-	(23)	(15)	(56,972)	(11,584)	-	-	(11,333)
Accretion	-	-	(12)	(16)	(11)	(15)	(13)	(11)
Depletion, deprec. & amort.	-	(16)	(431)	(543)	(414)	(525)	(430)	(2,248)
General and administrative	(761)	(1,051)	(1,646)	(1,344)	(526)	(686)	(807)	(3)
Stock-based compensation	(366)	(81)	-	(78)	(138)	(496)	(89)	(191)
Foreign exchange gain (loss)	4,381	2,214	(1,446)	(3,575)	(806)	450	(1,079)	2,627
Gain (loss) on sale of assets	(173)	1,777	-	-	-	-	-	-
Interest income	74	52	129	267	448	527	814	1,174
Net income (loss)	$ 3,155	$ 3,562	$ (4,058)	$(72,156)	$ (16,154)	$ (5,793)	$ (3,947)	$ (46,870)

The Company had a consolidated net income (loss) of $3,155,000 and $(16,154,000) for the three months ended September 30, 2009 and 2008, respectively. For the nine months ended September 30, 2009 and 2008, the consolidated net income (loss) was $2,659,000 and $(25,894,000), respectively. The net income for the third quarter of 2009 is primarily attributable to foreign exchange gains.

The various income and expenses categories are explained below in more detail.

Oil and Gas Sales

The Company had oil and gas sales, net of royalties, of $nil and $1,658,000 for the three and nine months ended September 30, 2009, respectively. The comparable numbers for 2008 were $1,583,000 and $3,346,000. All sales ceased on May 28, 2009, with the sale of substantially all of the Company's U.S. Gulf of Mexico properties.

Operating Costs

The Company had operating costs of $nil and $774,000 for the three and nine months ended September 30, 2009, respectively. In 2008, the comparable amounts were $630,000 and $1,370,000. Operating costs during the periods are primarily related to the Company's Eagle's Nest, Greylock and Jefferson Island properties. Operating costs decreased in the second quarter due to the sale of substantially all of the Company's operations in the U.S. Gulf of Mexico on May 28, 2009.

Exploration Costs

The Company had exploration costs of $nil and $810,000 for the three and nine months ended September 30, 2009, respectively. In 2008, the comparable amounts were $2,365,000 and $7,522,000, respectively. The decrease in exploration costs compared to the prior year is due to the Company's decision to sell its Gulf of Mexico properties.

Dry Hole Costs

Dry hole costs were $nil and $21,000 for the three and nine months ended September 30, 2009, compared to $1,711,000 and $4,968,000 for the comparable periods in the prior year.

Impairment of Properties

Impairment costs were $nil and $38,000 for the three and nine months ended September 30, 2009, compared to $11,584,000 and $11,584,000 for the comparable periods in 2008.

Depletion, Depreciation and Amortization

Depletion, depreciation and amortization ("DD&A") was $nil and $447,000 for the three and nine months ended September 30, 2009, respectively. For the previous year the comparable amounts were $414,000 and $1,369,000. DD&A primarily results from production on the Eagle's Nest, Greylock and Jefferson Island properties. DD&A was lower in 2009 due to the sale of substantially all of the Company's U.S. Gulf of Mexico operations on May 28, 2009.

Stock-Based Compensation

Stock-based compensation was $366,000 and $447,000 for the three and nine months ended September 30, 2009, respectively. The comparable amounts in 2008 were $138,000 and $723,000. The Company uses the fair value method of accounting for stock options granted to directors, officers, employees and consultants whereby the fair value of all stock options granted is recorded as a charge to operations. The fair value of common share options granted is estimated on the date of grant using the Black-Scholes option pricing model.

General and Administrative Expenses

General and administrative expenses for the three and nine months ended September 30, 2009 were $761,000 and $3,458,000, respectively. In the prior year the comparable amounts were $526,000 and $2,019,000.

The general and administrative expenses for the three months ended September 30, 2009 include $258,000 for legal, accounting and audit costs, $nil for salaries and benefits, $91,000 for management and consulting fees, and $77,000 for travel and entertainment expenses.

The general and administrative expenses for the nine months ended September 30, 2009 include $821,000 for legal, accounting and audit costs, $1,161,000 for salaries and benefits, $424,000 for management and consulting fees, and $153,000 for travel and entertainment expenses.

Foreign Exchange Gain (Loss)

Foreign exchange gain (loss) was $4,381,000 and $5,149,000 for the three and nine months ended September 30, 2009, respectively. In the prior year the comparable amounts were $(806,000) and $(1,435,000). The gains in 2009 result from the strengthening of the Canadian dollar against the United States dollar.

Interest Income

For the three and nine months ended September 30, 2009, interest income was $74,000 and $255,000, respectively. For the comparable periods in 2008 the amounts were $448,000 and $1,789,000. Interest income represents bank interest earned on excess cash and investments in government securities.

Other Comprehensive Income

Other comprehensive income represents changes in shareholders' equity during a period arising from transactions and other events and circumstances from non-owner sources and includes unrealized foreign currency translation gains and losses.

The Company's operations in the United States are denominated in U.S. dollars and are considered self-sustaining.

Financial Condition

At September 30 , 2009, the Company had total assets of $60,968,000 compared to $63,594,000 at December 31, 2008.

Liquidity and Capital Resources

Working capital at September 30, 2009, totaled $58,189,000, compared to $41,595,000 at December 31, 2008. As previously described, during October 2009, the Company completed and met all release conditions of an equity financing which raised gross proceeds of CDN$105 million. Also during October 2009, the Company paid $90.1 million of bonuses and other acquisition costs related to the newly acquired Kurdish working interests. Currently, ShaMaran has cash on hand of approximately $60.1 million.

Funds provided by (used in) operations were $3,543,000 and $2,053,000 for the three and nine months ended September 30, 2009 compared to $(3,645,000) and $(16,502,000) for the comparable periods in 2008. The primary use of the funds during 2008 was for exploration activities and to reduce trade payables.

Net cash provided from financing activities for the three and nine months ended September 30, 2009 was $311,000 and $348,000, respectively, compared to $nil and $50,000 for the comparable periods in 2008. During the three and none months ended September 30, 2009, the Company issued 700,000 and 790,000 common shares, respectively, upon the exercise of stock options.

Net cash provided by investing activities was $124,000 and $12,161,000 for the three and nine months ended September 30, 2009, compared to funds provided by investing activities of $9,445,000 and $3,400,000 for the comparable period in 2008. The increase in 2009 was primarily due to the Company's sale of substantially all of its oil and gas properties in the U.S. Gulf of Mexico.

Contributed surplus increased $178,000 and $156,000 for the three and nine months ended September 30, 2009, respectively, compared to increases of $138,000 and $709,000 in 2008. The decrease for the three and none months ended September 30, 2009, was due to the exercise of stock options during the periods. The increases in 2008 were due to stock-based compensation for the year offset by the exercise of warrants. When options are granted, the Black-Scholes option value method is used to calculate a value for the stock options. The offset to the amount that is recorded as stock compensation expense is a credit to contributed surplus. When the options are exercised, the applicable amounts of contributed surplus are transferred to share capital.

Financial Instruments

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

Cash, cash equivalents and investments are designated as held for trading and therefore carried at fair value, with unrealized gain or loss recorded in interest income.

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

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

Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company manages its credit risk through its counterparty ratings and credit limits. The Company is mainly exposed to credit risk on its bank accounts and accounts receivable. Bank accounts are with banks that have a minimum credit rating of R-1 (mid) or better (as measured by Dominion Bond Rate Services) or the equivalent thereof according to a recognized bond rating service.

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

Liquidity Risk

Liquidity risk is the risk that the Company will incur difficulties meeting its financial obligations as they are 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 uses authorizations for expenditures 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 and interest rate risks.

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

At September 30, 2009, the Company had $56,346,000 denominated in Canadian dollars. As of September 30, 2009, with other variables unchanged, a 1% strengthening of the U.S. dollar against the Canadian dollar would decrease net income by $563,000 due to this financial asset.

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.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Outstanding Share Data

As of November 24, 2009, the Company had 499,546,088 shares outstanding, 4,260,000 stock options outstanding under its stock-based compensation plan and zero warrants outstanding.

In accordance with the Kurdistan transaction agreements, the Company is obligated to issue an additional 100 million shares to the KRG, on or before January 25, 2010.

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

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

Related Party Transactions

Namdo Management Services Ltd. (Namdo) provides administrative support to the Company under an agreement which commenced April 1, 2007. The amount paid to Namdo was $73,000 and $187,000 during the three and nine months ended September 30, 2009, respectively, compared to $91,000 and $216,000 in 2008. Namdo is a private corporation owned by a shareholder of the Company.

During the three and nine months ended September 30, 2009, the Company incurred legal fees of $15,000 and $68,000, respectively, with a law firm in which an officer of the

Company is a partner. The comparable amounts were $5,000 and $13,000 in the prior year.

The Company incurred geological and geophysical (G&G) costs of $91,000 and $333,000, respectively, during the three and nine months ended September 30, 2008 with a G&G firm in which an officer of the Company is a managing partner. The contract with that firm was concluded at the end of 2008.

Changes in Directors and Officers

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

The following officer appointments have been made by the Company:

- Pradeep Kabra: Chief Operating Officer;
- John Ashbridge: Vice President Exploration;
- Ian Gibbs: Chief Financial Officer.

Accounting Policies and Critical Accounting Estimates

Use of Estimates

The consolidated financial statements of the Company have been prepared by management in accordance with accounting principles generally accepted in Canada. In preparing financial statements, management makes informed judgments and estimates that affect the reported amounts of assets and liabilities as of the date of the financial statements and affect the reported amounts of revenues and expenses during the reported period. Specifically, estimates were utilized in calculating depletion, asset retirement obligations, stock-based compensation, amortization and impairment write-downs. Actual results could differ from these estimates and the 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. All other exploration costs, including geological and geophysical costs, are charged to exploration expense when incurred.

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 oil and gas property and its fair value. If it is determined that the estimated fair value is less than the net carrying amount, a write-down to the oil and gas property's fair value is recognized during the period, with a charge to earnings.

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

A substantial portion of the Company's exploration and development activities are conducted jointly with others. The financial statements reflect only the Company's proportionate interests in such activities.

The Company engaged Netherland, Sewell and Associates, Inc., an independent geoscience consultancy firm, to evaluate 100% of the Company's proved and probable oil and gas reserves at December 31, 2008. The estimation of reserves is subjective. Forecasts are based on engineering data, future prices, expected future rates of production and the timing of capital expenditures, all of which are subject to uncertainties and interpretations. All of the Company's proved and probable oil and gas reserves at December 31, 2008, were sold to third parties during the second quarter of 2009.

<u>International Financial Reporting Standards</u>

In January 2006, the CICA Accounting Standards Board ("AcSB") adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, the AcSB confirmed in February 2008 that the International Reporting Standards ("IFRS") will replace Canadian GAAP for profit-oriented Canadian publicly accountable enterprises in 2011.

The Company has commenced the process to transition from current Canadian GAAP to IFRS. There are three phases in the process: diagnostic, detailed assessment and design and implementation. The Company is currently performing a review of the major differences between the current Canadian GAAP and IFRS. In 2010 the Company will commence the detailed assessment and design phase of the project.

During the implementation phase, the Company will execute the required changes to business processes, financial systems, accounting policies, disclosure controls and internal controls over financial reporting. At this time, the impact on financial statements is not reasonably determinable.

Risks and Uncertainties

The majority of ShaMaran's assets are located in the Kurdistan Region of Iraq. As such, ShaMaran is subject to political, economic, and other uncertainties, including, but not limited to, the uncertainty of negotiating with foreign governments, expropriation of property without fair compensation, adverse determinations or rulings by governmental authorities, changes in energy policies or in the personnel administering them, nationalization, currency fluctuations and devaluations, disputes between various levels of authorities, arbitrating and enforcing claims against entities that may claim sovereignty, authorities claiming jurisdiction, potential implementation of exchange controls and royalty and government share increases and other risks arising out of foreign governmental sovereignty over the areas in which ShaMaran's operations are conducted, as well as risks of loss due to civil strife, acts of war, guerrilla activities and insurrections.

ShaMaran's operations may be adversely affected by changes in government policies and legislation or social instability and other factors which are not within the control of ShaMaran including, among other things, adverse legislation in Iraq and/or the Kurdistan Region, a change in crude oil or gas pricing or export policy, the risks of war, terrorism, abduction, expropriation, nationalization, renegotiation or nullification of existing concessions and contracts, taxation policies, economic sanctions, the imposition of specific drilling obligations and the development and abandonment of fields.

Political Issues

The political and security situation in Iraq is unsettled and volatile. The political issues of federalism and the autonomy of regions in Iraq are matters about which there are major differences between the various political factions in Iraq. These differences could adversely impact ShaMaran's interests in the Kurdistan Region. In addition, certain borders of the Kurdistan Region of Iraq remain the subject of final determination, the result of which may have an adverse effect on ShaMaran's assets.

Legislative Issues

No federal Iraq legislation has yet been agreed to or enacted by the Iraq Council of Ministers (Cabinet) and Council of Representatives (Parliament) to address the future organization of Iraq's petroleum industry or the sharing of petroleum and other revenues within Iraq. Failure to enact legislation (or the enactment of federal legislation contradictory to Kurdistan Region legislation) could materially adversely impact ShaMaran's interests in the Kurdistan Region. Disagreements have been reported to exist between the Iraq Minister of Oil and officials of the KRG in relation to the terms of the draft Federal Petroleum Law. Certain officials of the federal Iraq government have also expressed an opinion that the Kurdistan Regional Oil & Gas Law is invalid.

Marketing, Markets and Transportation

The marketability and price of oil and gas that may be acquired or discovered by ShaMaran is, and will continue to be, affected by numerous factors beyond its control including the impact that the various levels of government may have on the ultimate price received for oil and gas sales. ShaMaran's ability to market its oil and gas may depend upon its ability to secure transportation. ShaMaran may also be affected by deliverability uncertainties related to the proximity of its potential production to pipelines and processing facilities and operational problems affecting such pipelines and facilities as well as potential government regulation relating to price, the export of oil and gas and other aspects of the oil and gas business. The export of oil and gas from the Kurdistan Region of Iraq remains subject to uncertainties which could have an adverse impact on ShaMaran's ability to market such oil and gas.

Exploration, Development and Production Risks

Oil and gas operations involve many risks which even a combination of experience, knowledge and careful evaluation may not be able to overcome. The long-term commercial success of ShaMaran depends on its ability to find, appraise, develop and commercially produce oil and gas resources and reserves. There is no assurance that commercial quantities of oil and gas will be discovered or acquired by ShaMaran. Future oil and gas exploration may involve unprofitable efforts, not only from dry wells, but from wells that are productive but do not produce sufficient petroleum substances to return a profit after drilling, operating and other costs. In addition, drilling hazards or environmental damage could greatly increase the cost of operations, and various field operating conditions may adversely affect the production from successful wells. These conditions include delays in obtaining governmental approvals or consents, shut-ins of connected wells resulting from extreme weather conditions, insufficient storage or transportation capacity or other geological and mechanical conditions. While diligent well supervision and e ffective maintenance operations can contribute to maximizing production rates over time, production delays and declines from normal field operating conditions cannot be eliminated and can be expected to adversely affect revenue and cash flow levels to varying degrees.

Ability to Execute Exploration and Development Program

It may not always be possible for ShaMaran to execute its exploration and development strategies in the manner in which ShaMaran considers optimal. ShaMaran's exploration and development programs in Kurdistan involve the need to obtain approvals from the relevant authorities, which may require conditions to be satisfied or the exercise of discretion by the relevant authorities. It may not be possible for such conditions to be satisfied.

Project Risks

ShaMaran's ability to execute projects and market oil and gas will depend upon numerous factors beyond ShaMaran's complete control, including:

- the availability and proximity of pipeline capacity;
- security issues;
- political risks;
- the supply of and demand for oil and gas;
- the effects of inclement weather;
- the availability of drilling, production and related equipment and supplies, as well as services, all of which may be disrupted for a number of reasons;
- the hazards related to drilling and associated operations;
- unexpected cost increases;
- accidental events;
- currency fluctuations;
- the availability and productivity of skilled labor;
- adverse legislation in the Kurdistan Region and/or Iraq; and
- the regulation of the oil and gas industry by various levels of government and Governmental agencies in the Kurdistan Region and/or Iraq.

Because of these factors, ShaMaran could be unable to execute projects on time, on budget or at all, and may not be able to effectively market the oil ~~and gas~~and gas that it may produce.

Substantial Capital Requirements

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

Additional Funding Requirements

ShaMaran's cash balances may not be sufficient to fund its ongoing activities at all times. From time to time, ShaMaran may require additional financing in order to carry out its oil and gas acquisition, exploration and development activities. Failure to obtain such financing on a timely basis could cause ShaMaran to forfeit its interest in certain properties, miss certain acquisition opportunities and reduce or terminate its operations.

ShaMaran's ability to access the equity or debt markets in the future may be affected by any prolonged market instability.

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

Outlook

Kurdistan is an emerging major oil region. Reserve estimates for the region are very high yet it remains under-developed and under-explored. There is enormous opportunity in Kurdistan and a significant work program is planned over the next several months including seismic and drilling preparation.

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.