

SHAMARAN PETROLEUM CORP.
MANAGEMENT DISCUSSION AND ANALYSIS
For the year ended December 31, 2014

Management's discussion and analysis ("MD&A") of the financial and operating results of ShaMaran Petroleum Corp. ("ShaMaran" together with its subsidiaries the "Company") is prepared with an effective date of March 12, 2015. The MD&A should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2014 together with the accompanying notes.

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

OVERVIEW

ShaMaran is a Canadian-based oil and gas company with a 20.1% direct interest in the Atrush petroleum property located in Kurdistan in Northern Iraq ("Kurdistan"). ShaMaran trades on the TSX Venture Exchange and the NASDAQ OMX First North Exchange (Stockholm) under the symbol "SNM".

The Company is currently in the pre-production stage of its appraisal and development program relating to the Atrush oil discovery on this petroleum property. Phase 1 of field development consists of installing and commissioning production facilities with 30,000 barrels of oil per day ("bopd") capacity and the drilling and completion of production wells to supply the production facility. During the year 2014 the final three of four planned Phase 1 production wells were drilled. Also in 2014, in order to further delineate the field towards the east, the second of two eastern appraisal wells was drilled and final preparations were completed to re-test Atrush 3 ("AT-3"), the first eastern appraisal well which was drilled in 2013.

HIGHLIGHTS

Production Facilities

- Implementation of the 30,000 bopd Phase 1 Chiya Khere production facility is in progress. The civil construction site preparation work for the facility was completed in the final quarter of 2014 and work is continuing on foundations for the individual units. Main production modules for the facility are being fabricated with onsite delivery expected during the second quarter of 2015.
- Front End Engineering and Design ("FEED") on a dedicated feeder pipeline between the Chiya Khere production facility and the main Khurmala to Fishkabur export pipeline was completed during 2014. Initial work on the pipeline right of way in the elevated section over the Chiya Khere mountain has commenced.

Well Results

- The Atrush-3 appraisal well flowed with a maximum oil rate of 4,900 bopd of 14° API oil using an electrical submersible pump during testing conducted in January 2015 in connection with well re-entry operations. The well was originally drilled in 2013.
- The Chiya Khere-6 ("CK-6") eastern appraisal well was drilled to a total depth ("TD") of 2,105 meters which was reached in November 2014. During subsequent testing the well flowed with a maximum oil rate of over 6,700 bopd of 26.6° API oil using an electrical submersible pump.
- The Chiya Khere-8 ("CK-8") development well was drilled from the same well pad used for the Atrush-1 ("AT-1") well discovery to a TD of 2,195 metres, which was reached in September 2014. The well has been suspended as a Phase 1 producer, pending testing and completion planned in early 2015.

- The Chiya Khere-5 (“CK-5”) development well was drilled from the same well pad used for the AT-1 well discovery to a TD of 2,098 metres, which was reached in June 2014. The well has been suspended as a Phase 1 producer, pending testing and completion planned in early 2015.
- The Atrush-4 (“AT-4”) appraisal and development well was drilled to a TD of 2,916 metres which was reached in January 2014. The well flowed with a combined rate of 9,059 bopd of 27-28° API oil from two intervals. AT-4 has been suspended as a Phase 1 producer.

Corporate

- The Company reports Atrush Block gross 2P reserve estimates of 61 MMbbls (2013: 58 MMbbls) as well as Atrush Block gross contingent resource estimates of 310 MMboe 2C (2013: 404 MMboe) as of December 31, 2014.
- ShaMaran raised gross funds of CAD 75.4 million through the issuance of an aggregate of 754,214,990 common shares of the Company in February 2015. The shares were issued further to an offering of rights to existing shareholders of the Company to purchase shares of ShaMaran at an exercise price of CAD 0.10 per share.
- Mr. Chris Bruijnzeels has been appointed as the President and Chief Executive Officer of ShaMaran and both Mr Bruijnzeels and Mr. C. Ashley Heppenstall have been appointed as members of ShaMaran’s Board of Directors. The appointments were effective January 19, 2015.
- \$150 million of senior secured bonds issued by General Exploration Partners, Inc. (“GEP”), a wholly owned subsidiary of the Company, were listed on the Oslo Børs in Norway in May 2014. The ticker for the bonds is “GEP01”.

CHANGES TO SENIOR MANAGEMENT AND THE BOARD OF DIRECTORS

The Company announced on January 19, 2015 changes to its senior management and Board of Directors (the “Board”). Mr. Chris Bruijnzeels was appointed as the President and Chief Executive Officer of ShaMaran and as a member of the ShaMaran Board of Directors replacing Mr. Pradeep Kabra who resigned from these positions with effect from January 19, 2015. Mr. C. Ashley Heppenstall was also appointed as a member of the Board while Mr. Alex Schneider and Mr. J. Cameron Bailey have resigned their positions as members of the Board, all with effect from January 19, 2015. In connection with the changes in senior management and the Board the Company approved on January 19, 2015 a grant of an aggregate of 26,000,000 incentive stock options with an exercise price of CAD 0.115 per share to certain senior officers and directors of the Company. Refer also to the “Outstanding Share Data” section below.

OPERATIONS

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 region is currently undergoing major exploration and development by internationally recognised mid to large sized oil companies.

The Atrush field was discovered in 2011 and a Phase 1 development plan was approved in October 2013, which consists of installing and commissioning production facilities with 30,000 bopd capacity and the drilling and completion of production wells to supply the production facility. During the year 2014 the final three of four planned Phase 1 production wells were drilled. Also, in order to further delineate the field towards the east, the second of two eastern appraisal wells was drilled and final preparations were completed to re-test AT-3, the first eastern appraisal well which was drilled in 2013.

Recent Operations in Kurdistan

Atrush-4 Appraisal and Phase 1 Development Well: AT-4 was drilled up-dip towards the undrilled crest of the structure from the AT-1 drill pad (the “Chamanke-A well pad”). The well was drilled to a TD of 2,916 metres which was reached on January 23, 2014. The testing program consisted of three separate cased hole drill stem tests conducted in the Jurassic reservoir with the highest reported rates totalling 9,059 bopd of 27-28 API oil from two of the tests. None of the tests produced formation water. The testing program concluded April 7, 2014 following which AT-4 was suspended as a future Phase 1 producer.

Chiya Khere-5¹ Phase 1 Development Well: CK-5 was drilled to a TD of 2,098 metres which was reached on June 28, 2014. The well was deviated from the Chamanke-A well pad with the bottom hole location in the Butmah formation approximately 870 metres west southwest of the surface location. As in previous wells, no water leg was encountered in the reservoir section, with the well penetrating a gross vertical oil column of approximately 540 metres. CK-5 will be tested using a workover rig in 2015 prior to final completion and tie-in to the Phase 1 production facility.

Chiya Khere-8 Phase 1 Development Well: CK-8 was drilled from the Chamanke-A well pad to a TD of 2,195 metres which was reached on September 13, 2014. This well targeted an area situated midway between CK-5 and Atrush-2 (“AT-2”) approximately 1.4 kilometres east southeast of the well pad, and found the reservoir much higher than expected, and no water with the reservoir section. Additionally, the main Sargelu reservoir section was found to be highly fractured as in the same section of the highly productive AT-2 well. CK-8 will be tested using a workover rig in 2015 prior to final completion and tie-in to the Phase 1 production facility.

Chiya Khere-6 Phase 2 Appraisal Well: CK-6, the second eastern area appraisal well, was spudded on October 1, 2014 from the Chamanke-C well pad. The well was drilled to a TD of 2,105 metres which was reached on November 5, 2014, after 36 operational days, ahead of plan and budget. The well reached the Jurassic reservoir approximately 139 metres structurally higher than the nearby AT-3 well, approximately 600 metres SSE of the surface location. Logs indicated that the matrix reservoir quality and degree of fracturing across the main reservoir zone were the best in any well drilled to date in Atrush. Three well tests were conducted with results as follows:

- DST#3 was conducted over a perforated 24 metre interval in the Naokelekan formation. The zone was flowed using ESP at rates up to 6,787 bopd (constrained by surface testing facilities) of 26.6° API oil.
- DST#2 was conducted over a 48-metre interval in the Lower Sargelu formation. During the main flow period the zone was flowed using ESP at rates up to 3,792 bopd of emulsion. Bottom hole samples are pending laboratory analysis to provide the gravity of the oil at reservoir conditions.
- DST#1 was conducted over a perforated 12-metre interval within the Alan formation. The zone flowed heavy oil post-acid with ESP and nitrogen lift at a low rate. The tested interval represents the deepest recovered oil in the field to date (-460m), nearly 200m deeper than the equivalent interval that successfully tested the higher viscosity oil in the AT-2 well.

Atrush-3 Re-entry and Re-test: Following CK-6, the drilling rig was skidded over to the adjacent AT-3 well. The well was re-entered in order to finish the inconclusive well testing program announced on August 26, 2013. The test consisted of a single commingled interval through two sets of 12-metre perforations in the Naokelekan and Lower Sargelu formations, which flowed with a maximum oil rate of 4,900 bopd, using an electrical submersible pump. Oil gravity was measured at 14 degrees API.

During the testing of both AT-3 and CK-6, pressure gauges monitoring interference in the AT-2 well (a distance of 6.5 kilometres from both wells) demonstrated that the Phase 2 appraisal area is in pressure communication with the Phase 1 development area. Full analysis of both CK-6 and AT-3 well testing results is ongoing.

Chiya Khere Phase 1 Production Facilities: Implementation of the 30,000 bopd Phase 1 production facility is in progress. The civil construction site preparation work for the facility was completed in the final quarter of 2014 and work is continuing on foundations for the individual facilities. Main production modules for the facility are being fabricated with onsite delivery expected during the second quarter of 2015 with hook-up and commissioning to follow with first oil targeted by end of 2015. A workover rig will be mobilised in the first half of 2015 to conduct testing and completion operations on CK-5 and CK-8, and to complete AT-2 and AT-4 as the four wells to be tied-in to the Chiya Khere production facility.

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

Atrush Feeder Pipeline: FEED was completed in the year 2014 on a dedicated feeder pipeline between the Chiya Khere production facility and the tie-in point on the main export pipeline at Kurdistan Crude Pipeline pumping station #2 (“KCP2”) at kilometre 92. Initial work on the pipeline right of way in the elevated section over the Chiya Khere mountain has commenced. Pipeline commissioning is expected to be completed in time for production start-up.

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

Location and Operational History

The Atrush Block is located approximately 85 kilometres northwest of Erbil, the capital of the Kurdistan Region of Iraq, and is 269 square kilometres in area. The Atrush Block contains the Chiya Khere structure. To the south of the Atrush Block is the Shaikan Block which is currently being developed by Gulf Keystone Petroleum Ltd. Immediately to the north of the Atrush Block is the Sarsang block where Hillwood International Energy in May 2014 declared the Swara Tika to be a commercial discovery and is currently producing from one well. In addition MOL plc has announced an oil discovery in the Bakrman well on the Akri-Bijeel block immediately east of the Atrush Block. Also, on trend discoveries to the west on the Sheikh Adi and Ber Behar Blocks have been announced by Genel Energy plc. The Atrush Block contains multiple proven and potential stacked oil reservoirs in the Cretaceous, Jurassic and Triassic sections in the Chiya Khere structure 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 potential additional upside in the Chiya Khere hanging wall Triassic, Chiya Khere footwall reservoirs (Cretaceous, Jurassic and Triassic), and a southern extension of the Swara Tika structure into the Atrush Block.

In August 2010 the Company acquired a 33.5% shareholding in GEP which then held an 80% working interest in the Atrush Block Production Sharing Contract (“PSC”), with the remaining 20% third party interest (“TPI”) being held by the Kurdistan Regional Government (“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 BV (“TAQA”), who also assumed from GEP the Operatorship of the Block, and repurchased the entire 66.5% shareholding which Aspect Energy International LLC (“Aspect”) held in GEP, leaving the Company with a 100% shareholding interest in GEP which then held a 26.8% direct interest in the PSC. The Company’s direct interest in the PSC is 20.1% after the KRG exercised on March 12, 2013 its option to acquire a 25% Government Interest in accordance with the provisions of the Atrush Block PSC. GEP, Marathon and TAQA together are “the Contractors” to the PSC.

Under the terms of the Atrush Block PSC, on exercise of its right to acquire the 25% interest, the KRG assumes an undivided interest in the petroleum operations and all the other rights, duties, obligations and liabilities of the contracting parties to the PSC from the date the block has first been declared commercially viable. Discussions have commenced amongst the Contractors and the KRG to amend the PSC to give effect to the KRG’s interest. At the date of this MD&A the process of amending the PSC has not been completed and the Contractors are currently advancing cash to the Operator to fund Atrush development costs relating to the KRG’s 25% interest.

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

GEP acquired 143 kilometres of 2D seismic data over the Atrush Block in 2008. The first exploration well, AT-1, was spudded in October 2010 reaching a TD of 3,400 metres in January 2011. A comprehensive well testing program consisting of ten drill stem tests (“DST”s) was completed in April 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 the possible installation of an extended test facility to conduct production testing in the field.

3D seismic covering the entire Atrush Block was acquired between July 2011 and August 2012. Final processing of the 3D seismic survey was completed in 2014.

The AT-2 appraisal well was drilled to a TD of 1,750 metres below the base of Jurassic reservoir section, which was reached in July 2012. The Company announced on September 13, 2012 the results of the comprehensive AT-2 well testing program which confirmed through three separate DSTs the AT-1 Jurassic oil discovery. Individual test rates for the three Jurassic DSTs, constrained by surface testing equipment, were over 10,000 bopd (approximately 27 degree API) and confirmed the significant potential for production from the highly fractured Jurassic reservoir. An additional two DSTs conducted in two deeper Jurassic formations confirmed them to be oil bearing and productive, with test rates limited by gas lift. GEP submitted in October 2012 to the Ministry of Natural Resources ("MNR") of Kurdistan an AT-2 Discovery Report giving notice of the additional discovery formations in the lower part of the Jurassic.

On November 7, 2012 GEP and Marathon, collectively being the Contractor under the Atrush Block PSC at that time, submitted to the Atrush Block Management Committee a Declaration of Commercial Discovery ("DCD") with effect from November 7, 2012 under Clause 12.6 (a) of the PSC. The DCD was submitted together with an Appraisal Report covering the Atrush field.

The AT-3 appraisal well was spudded on March 25, 2013 and, after a top hole sidetrack due to mechanical issues, the well was drilled to a MD of 1,806 metres which was reached on June 23, 2013. The well encountered an estimated oil column of 286 metres in the Jurassic reservoir (to the calculated Free Water Level) and successfully extended the Atrush accumulation 6.5 kilometres further to the east, while proving producible oil 180 metres deeper than previous wells thereby reducing the uncertainty on the Oil Water Contact/Free Water Level. AT-3 was suspended pending the planned re-entry and successful retest in January 2015.

In June 2013 an interference test was conducted between AT-1 and AT-2. The wells, which are 3.1 kilometres apart, confirmed excellent pressure communication and multi Darcy horizontal permeability through the fracture system in the Jurassic reservoir. This reservoir connectivity was further confirmed, as announced by the Company in February 2015, by pressure communication between the tested CK-6 and AT-3 wells and the AT-2 well, over a distance of 6.5 kilometres.

The Atrush Block Field Development Plan ("FDP") was submitted for approval to the KRG on May 6, 2013, in accordance with the terms of the PSC within 180 days after the DCD made on November 7, 2012. The FDP was presented in detail to the MNR in June 2013. Phase 1 of the FDP was duly approved with an effective date October 1, 2013.

On October 7, 2013 the Company announced that Phase 1 of the FDP for the Atrush Block had been approved by the KRG. The initial 20-year Development Phase (as defined in Clause 12.9 of the PSC) commenced on the October 1, 2013. Phase 1 will consist of four initial producers (AT-2, AT-4, CK-5 and CK-8) connected to a 30,000 gross bopd production facility.

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

SELECTED ANNUAL FINANCIAL INFORMATION

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

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

	For the year ended December 31,		
	<u>2014</u>	<u>2013</u>	<u>2012</u>
Continuing operations			
General and administrative expense	(1,548)	(2,393)	(2,852)
Share based payments expense	(307)	(882)	(8)
Impairment (loss) / recovery	-	(84)	1,814
Depreciation and amortisation expense	(53)	(65)	(183)
Share of income of associate	-	-	129,000
Relinquishment costs	-	-	(25,732)
Gain on sale of asset	-	-	1,100
Gain on fair valuation of net assets of subsidiary	-	-	102,735
Finance cost	(5,304)	(740)	(719)
Finance income	108	28	359
Income tax expense	(109)	(87)	(89)
Net (loss) / income from continuing operations	<u>(7,213)</u>	<u>(4,223)</u>	<u>205,425</u>
Discontinued operations			
Gain on release of excess site restoration provisions	228	981	-
Expenses	<u>(15)</u>	<u>(46)</u>	<u>(61)</u>
Net income / (loss) from discontinued operations	<u>213</u>	<u>935</u>	<u>(61)</u>
Net (loss) / income	<u>(7,000)</u>	<u>(3,288)</u>	<u>205,364</u>
Basic (loss) / income in \$ per share:			
Continuing operations	(0.01)	(0.01)	0.25
Discontinued operations	-	-	-
	<u>(0.01)</u>	<u>(0.01)</u>	<u>0.25</u>
Diluted (loss) / income in \$ per share:			
Continuing operations	(0.01)	(0.01)	0.25
Discontinued operations	-	-	-
	<u>(0.01)</u>	<u>(0.01)</u>	<u>0.25</u>

	As at December 31,		
	<u>2014</u>	<u>2013</u>	<u>2012</u>
Total assets	488,258	487,954	345,554
Exploration and evaluation assets – net book value	429,245	344,988	303,523
Working capital surplus	42,309	132,980	29,628
Borrowings	147,657	147,050	-
Shareholders' equity	322,204	328,989	331,376
Common shares outstanding (x 1,000)	810,984	810,984	810,984

Summary of Principal Changes in Annual Financial Information

The Company has reported in 2014 a net loss of \$7.0 million which was primarily driven by routine general and administrative expenses, share based payment expenses and finance cost, the substantial portion of which was expensed borrowing costs on the Company's senior secured bonds. These charges have been offset by a gain on the release of excess site restoration provisions associated with the Company's discontinued operations in the United States. The changes in annual financial information are further explained in the sections below.

Results of Continuing Operations

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

General and administrative expense

<i>In \$000</i>	For the year ended December 31,	
	2014	2013
Salaries and benefits	2,903	2,819
Management and consulting fees	776	1,011
General and other office expenses	484	514
Listing costs and investor relations	364	290
Travel expenses	198	298
Legal, accounting and audit fees	161	541
General and administrative expense incurred	4,886	5,473
General and administrative expense capitalised as E&E assets	(3,338)	(3,080)
General and administrative expense	1,548	2,393

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

The general and administrative expenses incurred in 2014 have decreased relative to the amount in 2013 primarily due to a reduction in the level of business development activity conducted in the year 2014.

Share based payments expense

<i>In \$000</i>	For the year ended December 31,	
	2014	2013
Share based payments expense	307	882

The share based payments expense results from the vesting of stock options granted in the years 2011 and 2013. No stock options were granted in the year ended December 31, 2014 (year 2011: 25,000; year 2012: nil; year 2013: 5,640,000). 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.

Depreciation and amortisation expense

<i>In \$000</i>	For the year ended December 31,	
	2014	2013
Depreciation and amortisation expense	53	65

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.

Impairment loss*In \$000*

	For the year ended December 31,	
	2014	2013
Write down drilling inventory to net realizable value	-	84
Impairment loss	-	84

The impairment losses on drilling inventory incurred in the year 2013 related to the Pulkhana and Arbat production sharing contract relinquishments.

Finance cost*In \$000*

	For the year ended December 31,	
	2014	2013
Interest charges on bonds at coupon rate	17,250	2,252
Amortisation of bond related transaction costs	607	78
Interest expense on borrowings	17,857	2,330
Unwinding discount on decommissioning provision	19	1
Foreign exchange loss	-	49
Total finance costs before borrowing costs capitalised	17,876	2,380
Borrowing costs capitalised as E&E assets	(12,572)	(1,640)
Total finance costs	5,304	740

General and specific borrowing costs directly attributable to the acquisition or construction of qualifying assets are capitalised together with the qualifying assets. All other borrowing costs are recognised in profit or loss in the period in which they are incurred. During the year 2014 the Company incurred interest expense relating to its \$150 million of senior secured bonds which carry an 11.5% fixed semi-annual coupon interest rate.

The foreign exchange loss recorded in the year 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. In 2014 the Company recorded a foreign exchange gain (refer to discussion under finance income).

Finance income*In \$000*

	For the year ended December 31,	
	2014	2013
Interest Income	65	28
Foreign exchange gain	43	-
Total finance income	108	28

Interest income represents bank interest earned on cash and investments in marketable securities. The relative increase in interest income reported in the year ended December 31, 2014 relative to the amount reported in the year 2013 is due to the higher average interest bearing cash balances held throughout the period.

The foreign exchange gain in 2014 resulted primarily from holding in the Company's Swiss subsidiary net assets denominated in United States dollars while the United States dollar strengthened during the reporting period against the Swiss Franc, the functional currency of the Swiss subsidiary.

Income tax expense*In \$000*

	For the year ended December 31,	
	2014	2013
Income tax expense	109	87

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 increase in tax expense from the comparable reporting period is primarily due to higher taxable income in the Swiss subsidiary which has increased slightly due to higher service costs incurred 2014.

Results of Discontinued Operations

The main components of discontinued operations are explained as follows:

Gain on release of excess site restoration provisions*In \$000*

	For the year ended December 31,	
	2014	2013
Gain on release of excess site restoration provisions	228	981

In the years 2014 and 2013 the Company released excess site restoration provisions as the total cost to complete this was less than the amount previously estimated. Works to restore the sites pertaining to the interests the Company held in petroleum properties located in the United States were completed during the year 2014.

Expenses*In \$000*

	For the year ended December 31,	
	2014	2013
Legal, accounting and audit fees	9	35
General and other office expenses	6	11
Total expenses	15	46

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

Capital Expenditures on Exploration and Evaluation Assets

The net book value of the Company's E&E assets at December 31, 2014 relate to the Atrush Block and includes \$24.5 million of advances made to fund Atrush development costs on behalf of the KRG. The movements in E&E during the years 2014 and 2013 are explained as follows:

In \$000

	For the year ended December 31,	
	2014	2013
Movements during the year:		
Opening cost and net book value, January 1	344,988	303,523
Additions	84,257	41,465
Cost and net book value, December 31	429,245	344,988

The additions to E&E assets during the year 2014 of \$84.3 million were comprised of Atrush drilling and field development activity costs totalling \$68.4 million, borrowing costs capitalised of \$12.6 million, and general and administrative costs relating to Atrush Block E&E activities totalling \$3.3 million.

The additions to E&E assets during the year 2013 of \$41.5 million were comprised of Atrush drilling and field development activity costs totalling \$35.1 million, capacity building and other PSC related payments of \$1.7 million,

borrowing costs capitalised of \$1.6 million, and general and administrative costs relating to Atrush Block E&E activities totalling \$3.1 million.

Borrowings

At December 31, 2014 GEP, a wholly owned indirect subsidiary of the Company, had outstanding \$150 million of senior secured bonds which were listed in May 2014 on the Oslo Børs in Norway under the symbol "GEP01". The bonds have a five year maturity from their issuance date of November 13, 2013, carry an 11.5% fixed semi-annual coupon and are being used to fund capital expenditures related to the development of the Atrush Block.

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

Under the terms of the bond agreement all bond proceeds are held in accounts pledged to the bond trustee as security and may be accessed by the Company on prior authorisation of the bond trustee provided the proceeds are to be employed for prescribed purposes, most notably to fund the financing, development and operation of the Atrush Block, to service the first 24 months of bond coupon interest expense and to fund technical, management and administrative services of ShaMaran's subsidiary companies up to \$6 million per year over the term of the bonds. Of the Company's \$57.2 million total cash and cash equivalents at December 31, 2014 \$41.1 million was held in accounts pledged to the bond trustee.

The movements in borrowings are explained as follows:

In \$000

	As at December 31,	
	2014	2013
Opening balance	149,302	-
Interest charges on bonds at coupon rate	17,250	2,252
Amortisation of bond related transaction costs	607	78
Net proceeds from bonds	-	146,972
Interest payments to bondholders	(17,250)	-
Ending balance	149,909	149,302
- Current portion: accrued interest expense on bonds	2,252	2,252
- Non-current portion: borrowings	147,657	147,050

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

In \$000

	As at December 31,	
	2014	2013
Less than one year	17,250	17,250
Between two and five years	199,407	216,050
Total	216,657	233,300

SELECTED QUARTERLY FINANCIAL INFORMATION

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

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

	For the quarter ended							
	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31
	<u>2014</u>	<u>2014</u>	<u>2014</u>	<u>2014</u>	<u>2013</u>	<u>2013</u>	<u>2013</u>	<u>2013</u>
Continuing operations								
General and admin. expense	(376)	(154)	(462)	(556)	(1,016)	(572)	(355)	(450)
Share based payments expense	(48)	(51)	(61)	(147)	(157)	(159)	(565)	(1)
Depreciation and amortisation	(15)	(14)	(13)	(11)	(11)	(19)	(16)	(19)
Impairment loss	-	-	-	-	-	-	(84)	-
Finance cost	(1,326)	(1,326)	(1,309)	(1,364)	(693)	(64)	(23)	-
Finance income	37	64	26	2	2	7	10	50
Income tax expense	(25)	(29)	(23)	(32)	(24)	(13)	(10)	(40)
Net loss. from continuing ops.	(1,753)	(1,510)	(1,842)	(2,108)	(1,899)	(820)	(1,043)	(460)
Discontinued operations								
Gain on release of excess provision	228	-	-	-	981	-	-	-
Income / (expense)	2	(1)	(1)	(15)	(6)	(13)	(7)	(20)
Net Income / (loss) from discontinued ops.	230	(1)	(1)	(15)	975	(13)	(7)	(20)
Net loss	(1,523)	(1,511)	(1,843)	(2,123)	(924)	(833)	(1,050)	(480)
 Basic income in \$ per share:								
Continuing operations	-	-	-	-	-	-	-	-
Discontinued operations	-	-	-	-	-	-	-	-
 Diluted income in \$ per share:								
Continuing operations	-	-	-	-	-	-	-	-
Discontinued operations	-	-	-	-	-	-	-	-

Summary of Principal Changes in the Fourth Quarter Financial Information

In the fourth quarter of 2014 work on the Atrush Block development program continued. The net loss in this quarter was primarily driven by routine general and administrative expenses, share based payments expense in respect of continuing operations and finance cost, the substantial portion of which was expensed borrowing costs on the Company's senior secured bonds. These expenses have been offset by a gain on the release of an excess site restoration provision associated with the Company's discontinued operations in the United States.

LIQUIDITY AND CAPITAL RESOURCES

Working capital at December 31, 2014 was \$42.3 million compared to \$133.0 million at December 31, 2013.

The overall cash position of the Company decreased by \$85.4 million during the year 2014 compared to an increase in cash of \$101.4 million during the year 2013. The main components of the movement in funds are discussed in the following paragraphs.

The operating activities of the Company during the year 2014 resulted in an increase in the cash position by \$3.6 million compared to a decrease of \$0.8 million during the previous year. The increase in the cash position due to operating activities is explained by a net loss of \$7.2 million, \$11.5 million net positive cash adjustments from working capital and non-cash expenses and \$0.7 million of cash used on discontinued operations.

Net cash outflows to investing activities in the year 2014 were \$71.7 million compared to cash outflows in the amount of \$44.8 million in 2013. Substantially all of the cash outflows on investing activities in the current period relate to investment in the Atrush Block appraisal and development work program.

Net cash outflows to finance activities during the year ended December 31, 2014 were \$17.3 million relating entirely to interest payments made to bondholders.

The share based payments reserve increased by \$307 in the year 2014 (2013: \$882) due entirely to share based payments expense incurred during the period. There were no stock options exercised during this period (2013: nil). When options are granted the Black-Scholes option value method is used to calculate a value for the stock options. When the options are exercised the applicable amounts of share based payments are transferred from the share based payments reserve to share capital.

The Company does not currently generate revenues and corresponding cash flows from its oil and gas appraisal and development operations. The Company has relied upon the issuance of common shares, proceeds from asset sales and, most recently, bonds, to finance its ongoing oil exploration, development and acquisition activities. The Company believes, based on the forecasts and projections it has prepared, that it will have financial resources sufficient to satisfy its contractual obligations and commitments under the agreed work program over the next 12 months. Nevertheless the possibility remains that the Company's operations and current and future financial resources could be significantly affected by adverse exploration and appraisal results, geopolitical events in the region, macroeconomic conditions or other risks, including uncertainty surrounding the timing and amounts of cash receipts commencing from first oil and the level of project development costs that the Company may be required to fund in order to realize receipts from oil sales to its customers. The potential that the Company's financial resources are insufficient to fund its appraisal and development activities for the next 12 months indicates a material uncertainty which may cast significant doubt over the Company's ability to continue as a going concern.

OUTSTANDING SHARE DATA

There was no change in the year 2014 in the number of common shares of the Company outstanding which was 810,983,860 at December 31, 2013 and December 31, 2014.

The Company announced on February 10, 2015 that, in connection with an offering of rights to shareholders of record on January 12, 2015 to purchase additional common shares in the Company ("Common Shares") at a subscription price of CAD 0.10 per share (the "Rights Offering"), it had issued an aggregate of 713,308,912 Common Shares, including 195,710,409 Common Shares to its major shareholders, Lorito Holdings SARL, Zebra Holdings and Investments SARL and Lundin Petroleum BV (collectively the "Standby Purchasers") on exercise of their respective rights, resulting in gross proceeds to the Company of CAD 71.3 million. Under the terms of the standby purchase agreement (the "Standby Purchase Agreement") between the Company and the Standby Purchasers, the Standby Purchasers agreed to subscribe for a total of 40,906,078 additional Common Shares, representing all Common Shares not otherwise subscribed for by rights holders, at a price of CAD 0.10 per share (the "Standby Purchase"). The Standby Purchase was concluded on February 17, 2015 and resulted in additional gross proceeds to the Company of CAD 4.1 million. In addition on February 17, 2015 the Company issued a further aggregate of 14,569,684 Common Shares to the Standby Purchasers in respect of the guarantee fee, as defined under the standby purchase agreement.

At December 31, 2014 there were 6,755,000 stock options outstanding under the Company's employee incentive stock option plan, which is a decrease from the 8,263,664 stock options outstanding at December 31, 2013 by the 1,508,334 stock options which expired in September 2014. In the 2014 year no stock options have been granted (2013: 5,640,000), were forfeited, or were exercised. At the date of this MD&A the number of stock options outstanding was 32,755,000 following a grant of 26,000,000 stock options with an exercise price of CAD 0.115 to certain senior officers and directors of the Company which was approved on January 19, 2015.

The Company has no warrants outstanding.

OFF BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements.

RELATED PARTY TRANSACTIONS

In \$000

	Purchases of services during the year		Amounts owing at December 31,	
	2014	2013	2014	2013
McCullough O'Connor Irwin LLP	276	26	91	14
Lundin Petroleum AB	464	518	56	89
Namdo Management Services Ltd.	214	243	31	15
Mile High Holdings Ltd.	-	113	35	113
Vostok Nafta Investment Ltd.	-	13	-	-
Total	954	913	213	231

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.

The Company receives services from various subsidiary companies of Lundin Petroleum AB ("Lundin"), a shareholder of the Company. Lundin charges during the year ended December 31, 2014 of \$464 (2013: \$518) were comprised of G&G and other technical service costs of \$50 (2013: \$144), investor relations services of \$36 (2013: \$nil), reimbursement for Company travel and related expenses of \$1 (2013: \$nil), office rental, administrative and building services of \$377 (2013: \$374).

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

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

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

COMMITMENTS

Atrush Block Production Sharing Contract

Shamaran holds a 20.1% direct interest in the PSC through its wholly owned subsidiary GEP. TAQA is the Operator with a 39.9% direct interest, Marathon holds a 15% direct interest, and the remaining 25% interest was acquired by the KRG when on March 12, 2013, it exercised its right to acquire a 25% Government Interest in accordance with the provisions of the Atrush Block PSC. GEP, Marathon and TAQA together are "the Contractors" to the PSC.

Under the terms of the Atrush Block PSC, on exercise of its right to acquire the 25% interest, the KRG assumed an undivided interest in the petroleum operations and all the other rights, duties, obligations and liabilities of the contracting parties to the PSC from the date the block has first been declared commercially viable. Discussions have commenced amongst between the Contractors and the KRG to amend the PSC to give effect to the KRG's interest. At the date of this MD&A the process of amending the PSC has not been completed and the Contractors are currently advancing Atrush development costs relating to the KRG's 25% interest.

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

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

	For the year ended December 31,				
	2015	2016	2017	Thereafter	Total
Atrush Block development and PSC	60,258	120	120	1,932	62,430
Office and other	92	-	-	-	92
Total commitments	60,350	120	120	1,932	62,522

Amounts relating to the Atrush Block represent the Company's unfunded share of the approved work program and other obligations under the Atrush Block PSC.

PROPOSED TRANSACTIONS

The Company had no significant transactions pending at March 12, 2015.

CRITICAL ACCOUNTING ESTIMATES AND ACCOUNTING POLICIES

Accounting Estimates

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

New Accounting Standards

The Company has adopted effective January 1, 2014 on a prospective basis the following new and revised IFRS, along with any consequential amendments. These changes were made in accordance with the applicable transitional provisions.

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

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

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

Accounting Standards Issued But Not Yet Applied

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

IFRS 9: Financial Instruments - Classification and Measurement, addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and amended in October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than in net earnings, unless this creates an accounting mismatch. The new standard will be effective for annual periods beginning on or after January 1, 2018.

IFRS 15: Revenue from contracts with customers is the new standard which replaces IAS 18 Revenue and IAS 11 Construction Contracts and provides a five step framework for application to customer contracts; identification of customer contract, identification of the contract performance obligations, determination of the contract price, allocation of the contract price to the contract performance obligations, and revenue recognition as performance obligations are satisfied. A new requirement where revenue is variable stipulates that revenue may only be recognised to the extent that it is highly probable that significant reversal of revenue will not occur. The new standard will be effective for annual periods beginning on or after January 1, 2017.

IFRS 11: Joint Arrangements. An amendment to IFRS 11 was issued in May 2014 addressing guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The standard now specifies the appropriate accounting treatment for such acquisitions and requires an investor to apply the principles of business combination accounting, as defined in IFRS 3 - Business combinations, when acquiring an interest in a joint operation that constitutes a business. The amendment requires an investor to measure identifiable assets and liabilities at fair value; expense acquisition related costs; recognise deferred tax, and; recognise the residual as goodwill. The amendment is applicable to both the acquisition of the initial interest in a joint operation and the acquisition of additional interest in the same joint operation. However, a previously held interest is not to be re-measured when the acquisition of an additional interest in the same joint operation results in retaining joint control. The amendment to IFRS 11 will be applied prospectively for annual periods beginning on or after January 1, 2016.

Accounting for Oil and Gas Operations

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

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

Capitalised costs of proved oil and gas properties are depleted using the unit of production method based on estimated gross proved reserves of petroleum and natural gas as determined by independent engineers. Successful exploratory wells and development costs and acquired resource properties are depleted over proved developed reserves. Acquisition costs of unproved reserves are not depleted or amortised while under active evaluation for commercial reserves. Costs associated with significant development projects are depleted once commercial production commences. A revision to the estimate of proved reserves can have a significant impact on earnings as they are a key component in the calculation of depreciation, depletion and accretion.

Producing properties and significant unproved properties are assessed annually, or more frequently as economic events dictate, for potential indicators of impairment. Economic events which would indicate impairment include:

- The period for which the Company has the right to explore in the specific area has expired during the period or will expire in the near future and is not expected to be renewed.
- Substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned.
- Exploration for and evaluation of resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the Company has decided to discontinue such activities in the specific area.
- Sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the E&E asset is unlikely to be recovered in full from successful development or by sale.
- Extended decreases in prices or margins for oil and gas commodities or products.
- A significant downwards revision in estimated volumes or an upward revision in future development costs.

The impairment test is initially based on undiscounted future cash flows from proved and risk adjusted probable reserves. If an impairment indicator is identified, fair value is calculated as the present value of estimated expected discounted cash flows from proved and risk-adjusted probable reserves. Any impairment loss is the difference between the carrying value of the petroleum property and its fair value. Therefore, if it is determined that the estimated fair value is less than the net carrying amount, a write-down to the oil and gas property's fair value is recognised during the period, with a charge to earnings.

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

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

RESERVES AND RESOURCE ESTIMATES

The Company engaged McDaniel and Associates Consultants Ltd ("McDaniel") to evaluate 100% of the Company's reserves and resource data at December 31, 2014. The conclusions of this evaluation have been presented in a Detailed Property Report which has been prepared in accordance with standards set out in the Canadian National Instrument NI 51-101 and Canadian Oil and Gas Evaluation Handbook ("COGEH").

McDaniel estimates for reserves and resources have taken into account the results of recent drilling and well test results, as well as the final remapping based on 3D seismic and the commitment to the Phase 1 of development as defined by the KRG approved field development plan.

The Company's crude oil and natural gas reserves and contingent resources for the Company's Atrush asset as of December 31, 2014 were estimated to be as follows:

Reserves Summary – Atrush Phase 1 Development

As of December 31, 2014

Mbbbl⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾⁽⁵⁾

Reserves Category:	Property Gross	Company Gross ⁽³⁾	Company Net ⁽⁴⁾
Light/Medium Oil (Mbbbl)⁽²⁾			
Total Proved Reserves (1P)	31,216	6,274	4,500
Probable Reserves	30,235	6,077	3,361
Proved and Probable Reserves (2P)	61,451	12,352	7,861
Possible Reserves	59,520	11,964	4,479
Proved + Probable and Possible Reserves (3P)	120,972	24,315	12,340

Notes:

- (1) Reserves are based on the KRG approved Phase 1 Atrush development comprising a 30,000 bpd facility and 4 producers (AT-2, AT-4, CK-5 and CK-8).
- (2) The Atrush Field contains crude oil of variable density even within a single reservoir unit. Oil density measurements on the PVT samples analyzed to date, and from the reservoirs assigned reserves, have been less than 920 kg/m3 and as such are categorized as medium oil. However wellhead oil density measurements suggest that some of the Atrush oil, which as yet has not been the subject of PVT study, will likely have a density of greater than 920 kg/m3 and as such would be categorized as heavy oil.
- (3) Company gross reserves are based on Company 20.1% working interest share of the property gross reserves.
- (4) Company net reserves are based on Company share of total cost and profit revenues and the income tax paid on behalf of Company.
- (5) The Company has no Condensate or Natural Gas Reserves.

The updated estimates of contingent resources for the Atrush block are as follows:

Contingent Resources Summary – Atrush Jurassic Oil Discovery

As of December 31, 2014

(1)(2)(3)(4)(5)

	Low Estimate (1C)	Best Estimate (2C)	High Estimate (3C)
Property Gross			
Light/Medium Oil (Mbbbl) ⁽⁴⁾	179,891	298,760	434,948
Natural Gas (MMcf)	38,930	66,368	101,590
Total (Mboe) ⁽⁵⁾	186,379	309,821	451,880
Company Gross			
Light/Medium Oil (Mbbbl) ⁽⁴⁾	36,158	60,051	87,425
Natural Gas (MMcf)	7,825	13,340	20,420
Total (Mboe) ⁽⁵⁾	37,462	62,274	90,828

Notes:

- (1) There is no certainty that it will be commercially viable or technically feasible to produce any portion of the resources.
- (2) These are unrisks contingent resources that do not take into account the chance of development. The contingent resources are sub-classified as "development unclarified" with an "undetermined" economic status.
- (3) Company gross resources are based on Company 20.1% working interest share of the property gross resources.
- (4) The Atrush Field contains crude oil of variable density even within a single reservoir unit. Oil density measurements on the PVT samples analyzed to date, and from the reservoirs assigned contingent resources, have been between 900 and 925 kg/m3 and as such should be categorized as either medium or heavy oil. At this stage it is difficult to split the contingent resources between these product types and, as the majority of the oil density measurements on the PVT samples have been less than 920 kg/m3, the oil has been categorized as medium oil.
- (5) 6 Mcf is equivalent to 1 BOE.

Crude oil and natural gas contingent resources were assigned to the Chia Gara Transition Beds, Barsarin, Naokelekan, Upper Sargelu, Lower Sargelu, Alan, Mus, and Butmah formations as part of this evaluation. The contingent resources represent the likely recoverable volumes associated with further phases of development after Phase 1. These are considered to be contingent resources rather than reserves due to the uncertainty over the future development plan which will depend in part on further field appraisal and Phase 1 production performance.

The Company believes that the reserve base, which has increased slightly from the 11.7MMbbls of company gross 2P reserves reported at December 31, 2013, supports the 30,000 bpd Atrush Phase 1 development program scheduled for startup before the end of 2015. A reduction in company gross 2C contingent resources from the 104.2MMboe reported at December 31, 2013 reflects a more complex geological structure (interpreted from the 3D seismic data processed in 2014 and 2014 well results) and a reduced estimate of recovery factor from the rock matrix. The recoverable estimates are related to a water drive mechanism as per the current field development plan and therefore exclude any upside associated with any future improved oil recovery efforts.

In the absence of new data prospective resources for the Atrush block were not re-evaluated and therefore remain unchanged:

Prospective Resources Summary – Atrush Block*

As of December 31, 2013

(1)(2)(3)(4)(5)(6)

*Comprising remaining potential in the Atrush Hanging Wall (Triassic), Atrush Footwall (Cretaceous, Jurassic and Triassic) and extension of the Swara Tika structure into the Atrush block (Jurassic and Triassic).

	Unrisked Low Estimate	Unrisked Best Estimate	Unrisked Mean Estimate	Unrisked High Estimate	Risked (2) Mean Estimate
Property Gross					
Light/Medium Oil (Mbbbl) ⁽⁵⁾	121,425	173,194	180,165	247,211	60,479
Condensate (Mbbbl)	8,741	28,327	36,173	72,890	6,766
Natural Gas (MMcf)	141,366	258,352	289,988	481,107	61,445
Total (Mboe) ⁽⁶⁾	153,727	244,580	264,670	400,285	77,485
Company Gross ⁽⁴⁾					
Light/Medium Oil (Mbbbl) ⁽⁵⁾	24,406	34,812	36,213	49,689	12,156
Condensate (Mbbbl)	1,757	5,694	7,271	14,651	1,360
Natural Gas (MMcf)	28,415	51,929	58,288	96,702	12,350
Total (Mboe) ⁽⁶⁾	30,899	49,161	53,199	80,457	15,575

Notes:

- (1) There is no certainty that any portion of the prospective resources will be discovered. If discovered, there is no certainty that it will be commercially viable or technically feasible to produce any portion of the resources.
- (2) These are partially risked prospective resources that have been risked for chance of discovery, but have not been risked for chance of development.
- (3) Total based on the probabilistic aggregation of undiscovered pools within the field/prospect.
- (4) Company gross resources are based on Company working interest share of the property gross resources.
- (5) The prospective resources are categorized as "light & medium oil" however based on oil samples obtained from the Atrush Field it may be that a portion should be categorized as "heavy oil"; it is not possible at this stage to split the resources between the categories and for simplicity they are all included as "light & medium oil".
- (6) 6 Mcf is equivalent to 1 BOE.

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

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

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

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

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

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

FINANCIAL INSTRUMENTS

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

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

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

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

Financial Risk Management Objectives

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

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

Commodity price risk: The prices that the Company receives for its oil and gas production may have a significant impact on the Company's revenues and cash flows provided by operations. World prices for oil and gas are characterised by significant fluctuations that are determined by the global balance of supply and demand and worldwide political developments and in particular the price received for the Company's oil and gas production in Kurdistan is dependent upon the Kurdistan government and its ability to export production outside of Iraq. The spot price of Brent Crude Oil, a reference in determining the price at which the Company can sell future oil production, has declined by 49% over the year 2014. A further decline in the price at which the Company can sell future oil and gas production could adversely affect the amount of funds available for capital reinvestment purposes as well as the Company's value in use calculations for impairment test purposes.

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

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

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

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

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

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

The Company manages credit risk by monitoring counterparty ratings and credit limits and by maintaining excess cash and cash equivalents on account in instruments having a minimum credit rating of R-1 (mid) or better (as measured by Dominion Bond Rate Services) or the equivalent thereof according to a recognised bond rating service.

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

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

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

RISKS AND UNCERTAINTIES

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

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

Political and Regional Risks

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

Political uncertainty and potential impact of actions of the Islamic State in Iraq and Syria ("ISIS"): Shamaran's assets and operations are located in Kurdistan, a federally recognised semi-autonomous political region in Iraq, and may be influenced by political developments between Kurdistan and the Iraq federal government, as well as political developments of neighbouring states within MENA region, Turkey, and surrounding areas. Kurdistan and Iraq have a history of political and social instability. As a result, the Corporation is subject to political, economic and other uncertainties that are not within its control. These uncertainties include, but are not limited to, changes in government policies and legislation, adverse legislation or determinations or rulings by governmental authorities and disputes between the Iraq federal government and Kurdistan.

During recent months there has been a growing threat from the actions of ISIS which has resulted in an increased security threat in Iraq and the Kurdistan Region of Iraq. Operations were suspended temporarily by a number of international companies including TAQA, the Operator of the Atrush Block, who suspended operations for 21 days in the month of August 2014. The security situation in the region has improved recently, however if ISIS were to engage in attacks or were to occupy areas within the Kurdistan Region of Iraq, it could result in the Corporation and its joint venture partners having to stop operations in the Atrush Block. This could result in delays in operations, additional costs for increased security and difficulty in attracting/retaining qualified service companies and related personnel, which could materially adversely impact the operations and future prospects of the Corporation and could have a material adverse effect on the Corporation's business and financial condition.

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

Industry and Market Risks

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

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

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

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

Business Risks

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

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

Marketing, markets and transportation: The export of oil and gas and payments relating to such exports from Kurdistan remains subject to uncertainties which could negatively impact on ShaMaran's ability to export oil and gas and receive payments relating to such exports. Further, ShaMaran's ability to export and market oil and gas may also depend upon its ability to secure transportation and delivery, in view of related issues such as the proximity of its potential production to pipelines and processing facilities. Potential government regulation relating to price, quotas and other aspects of the oil and gas business could result in adverse effects to the Company's business including, but not limited to, impairing the Company's ability to export and sell oil and gas and receive full payment for all sales of oil and gas.

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

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

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

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

Project and Operational Risks

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

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

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

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

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

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

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

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

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

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

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

Financial and Other Risks

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

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

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

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

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

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

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

Risks Related to the GEP's Senior Secured Bonds

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

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

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

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

OUTLOOK

The outlook for 2015 is as follows:

Atrush Block

Production Facilities

Work is continuing with foundation work ready to receive the various production modules and equipment during 2015 for the Chiya Khare 30,000 bopd production facility. Onsite delivery is expected to commence from the second quarter with hook-up and commissioning to follow with first oil targeted by end of 2015.

The KRG is to continue installation of the feeder pipeline between the Chiya Khare production facility and the tie-in point on the main export pipeline at KCP2 at kilometre 92. Pipeline commissioning is expected to be completed in time for target production start-up.

Wells

The Operator plans to mobilise a workover rig in April 2015 to conduct well tests on the previously untested CK-5 and CK-8 wells and to complete them for production and connection to the Chiya Khare Phase 1 facilities. In addition 2015 plans are to use the workover rig to complete AT-2 and AT-4, the other two Phase 1 production wells which have been tested, also to be connected to the Chiya Khare Phase 1 facilities as future producers.

New Ventures

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

General

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

FORWARD LOOKING INFORMATION

This report contains forward-looking information and forward-looking statements. Forward-looking information concerns possible events or financial performance that is based on management's assumptions concerning anticipated developments in the Company's operations; the adequacy of the Company's financial resources; financial projections, including, but not limited to, estimates of capital and operating costs, production rates, commodity prices, exchange rates, net present values; and other events and conditions that may occur in the future. Information concerning the interpretation of drill results and reserve estimates also may be deemed to be forward-looking information, as it constitutes a prediction of what might be found to be present if and when a project is actually developed.

Forward-looking statements are statements that are not historical and are frequently, but not always, identified by the words such as "expects," "anticipates," "believes," "intends," "estimates," "potential," "possible," "budget" and similar expressions, or statements that events, conditions or results "will," "may," "could," or "should" occur or be achieved. Forward-looking statements are statements about the future and are inherently uncertain, and actual achievements of the Company or other future events or conditions may differ materially from those reflected in the forward-looking statements due to a variety of risks, uncertainties and other factors, including, without limitation, those described in this MD&A.

The Company's forward-looking information and forward-looking statements are based on the beliefs, expectations and opinions of management on the date the statements are made. Management is regularly considering and evaluating assumptions that will impact on future performance. Those assumptions are exposed to generic risks and uncertainties as well as risks and uncertainties that are specifically related to the Company's operations.

The Company cautions readers regarding the reliance placed by them on forward-looking information as by its nature, it is based on current expectations regarding future events that involve a number of assumptions, inherent risks and uncertainties, which could cause actual results to differ materially from those anticipated by the Corporation.

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

ADDITIONAL INFORMATION

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