

SHAMARAN PETROLEUM CORP.

MANAGEMENT DISCUSSION AND ANALYSIS

For the year ended December 31, 2011

(Expressed in United States Dollars unless otherwise indicated)

Management's discussion and analysis ("MD&A") of the financial and operating results of ShaMaran Petroleum Corp. ("ShaMaran" together with its subsidiaries the "Company") is prepared as of March 28, 2012. The MD&A should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2011 together with the accompanying notes. Unless otherwise stated herein all monetary amounts are expressed in US dollars ("USD").

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as required for Canadian public listed entities with year ends beginning on or after January 1, 2011. In reporting periods prior to the year 2011 the Company's financial statements were prepared under Canadian generally accepted accounting principles.

Overview

ShaMaran is a Canadian-based oil and gas company with interests in two petroleum properties located in Kurdistan in Northern Iraq ("Kurdistan"). The Company is currently in the pre-production stages of its exploration and development program relating to the petroleum properties. ShaMaran trades on the TSX Venture Exchange and the NASDAQ OMX First North Exchange (Stockholm) under the symbol "SNM".

Highlights

- A major oil discovery in the Atrush Block was announced by the Company on April 13, 2011. The Atrush 1 well flowed at rates totalling over 6,393 bopd of 26.5 API oil from three tests in the Middle and Upper Jurassic reservoirs and well analysis indicated that the intervals are capable of much higher rates when completed for production. The well was drilled in budget and on time to a total depth of 3,400 meters.
- The Appraisal Work Programme and Budget on the Atrush Block has been submitted to the KRG. The Programme consists of 3D seismic and a number of appraisal wells and studies. 3D seismic acquisition is in progress and the construction of the location for the Atrush-2 appraisal well is underway with drilling operations planned to commence in May 2012. Planning for an Early Production facility to conduct a long term test in the field is also underway.
- The Company's 100% owned subsidiary ShaMaran Petroleum BV entered into a production sharing contract ("PSC") on July 27, 2011 in respect of the Taza Block (formerly Block K42) in the Kurdistan Region of Iraq. ShaMaran holds a 20% working interest in the PSC, and Oil Search Iraq Limited ("OSIL") is the operator with a 60% working interest in the PSC. The Kurdistan Regional Government of Iraq ("KRG") holds a 20% working interest in the PSC with costs carried by ShaMaran and OSIL. Planning is underway for an exploration well with drilling operations expected to commence near the end of the second quarter of 2012.
- Operations were discontinued in December 2011 in Pulkhana after disappointing testing results from the Pulkhana 9 well. On January 17, 2012 the Company signed a final binding agreement with the KRG to relinquish to the KRG the 60% working interests previously held in each of the Arbat and Pulkhana Production Sharing Contracts.
- In February 2012 the Company received a Detailed Property Report ("the Report") from its third party auditors, McDaniel & Associates Consultants Ltd. The Report includes 124,782 Mboe as best estimate of *Gross Estimated Contingent Resources* and 87,910 Mboe as the unrisks best estimate of *Gross Estimated Prospective Resources* net to ShaMaran for the Company's two assets. These estimates are exclusive of amounts relating to the Pulkhana and Arbat Blocks which were relinquished in January 2012.

- Cash proceeds of \$CAD 51.0 million were raised by the Company (\$CAD 49.7 million net of issuance costs) through a private placement of 127.5 million common shares at \$CAD 0.40 per share which was concluded on November 15, 2011. In May 2011 the Company raised cash proceeds of \$CAD 50.4 million (\$CAD 49.5 million net of issuance costs) through a private placement of 56 million common shares at \$CAD 0.90 per share which was concluded on May 5, 2011.
- The cash balance of the Company was \$49.1 million as at December 31, 2011.

Operations in Kurdistan

The Company had at December 31, 2011 direct working interests in each of the Pulkhana Block, the Arbat Block and the Taza Block (formerly Block K42) and an indirect interest in the Atrush Block. All petroleum properties are located in Kurdistan within the northern extension of the Zagros Folded Belt. The area is currently undergoing a major exploration and development campaign by over 40 mid to large size international oil companies.

On January 17, 2012 ShaMaran signed a final binding agreement with the KRG to relinquish to the KRG the 60% working interests which it then held in each of the Arbat and Pulkhana Production Sharing Contracts ("PSC"). Under the terms of the agreement the PSC for each of the Pulkhana and Arbat blocks was terminated whereby ShaMaran's interests in both PSCs are relinquished. This asset realignment relieved the Company from the remaining work program obligations of Pulkhana and Arbat blocks, and allows ShaMaran to focus its activities and resources on the Atrush and Taza Blocks, which the Company considers to be their most prospective blocks.

Atrush Block

The Atrush Block is located approximately 85 km northwest of Erbil, the capital of the Kurdish administered part of Iraq, and is 269 square kilometers in area. The topography is similar to the Shaikan Block to the south which had a major discovery reported by Gulf Keystone Petroleum Ltd in January 2010. Immediately to the north of the Atrush Block is the Sarsang block where Hillwood International Energy also made an oil discovery in the Swara Tika-1 well. The structures located on the Block contain multiple stacked oil reservoirs in the Cretaceous, Jurassic and Triassic sections and due to a high-degree of fracturing are capable of high production rates.

In August 2010 the Company acquired a 33.5% shareholding in General Exploration Partners Inc ("GEP"). GEP is the operator of the Atrush Block PSC, holding an 80% working interest in the Block, with the remaining 20% third party interest ("TPI") being held by the KRG. In October 2010, Marathon Oil Corporation was assigned the 20% TPI.

Under the terms of PSC the KRG has the option of participating as a Contractor Entity with an undivided interest in the petroleum operations and all the other rights, duties, obligations and liabilities of the Contractor in the PSC, of up to 25% and not less than 5%. If this option is exercised, the government will become liable for their share of the petroleum costs incurred on or after the first commercial declaration date. Fiscal terms under the PSC include a 10% royalty, a variable profit split, based on a percentage share to the KRG and a capacity building payment equal to 30% of profit oil (produced oil, less royalty and cost oil) to be paid to the KRG. GEP has the right to recover costs using up to 40% of the available oil (produced oil less royalty oil) and 55% of the produced gas.

GEP acquired 143 km of 2D seismic data (covering the Atrush Block) data in 2008. The first exploration well on the Atrush Block was spudded on October 5, 2010 and a total depth of 3,400 meters was reached on January 21, 2011. A comprehensive well testing program consisting of ten drill stem tests (DSTs) commenced on January 30, 2011 and was completed on the April 3, 2011. Following notification to the KRG of a major Jurassic oil discovery on the April 4, 2011 the operator GEP submitted an Appraisal Work Program which consists of 3D seismic, appraisal wells and studies leading to the possible installation of an Early Production facility in 2012 to conduct a long term test in the field. 3D seismic acquisition operations commenced on the block in July 2011 and planning for the Atrush-2 well is currently in progress, with the well location under construction.

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

Taza Block (formerly Block K42)

Taza Block located is a 511 square kilometer exploration area located in the South of Kurdistan immediately northeast of the Pulkhana Block and on trend with the giant producing Jambur field situated to the north west of the Block. The producing Jambur field has estimated oil reserves in excess of one billion barrels and is connected to export infrastructure.

The Company's 100% owned subsidiary ShaMaran Petroleum BV entered into a production sharing contract ("PSC") on July 27, 2011 in respect of the Taza Block. ShaMaran holds a 20% working interest in the PSC, and Oil Search Iraq Limited ("OSIL") is the operator with a 60% working interest in the PSC. The Kurdistan Regional Government of Iraq ("KRG") holds a 20% working interest in the PSC with costs carried by ShaMaran and OSIL. The Company had previously been a party to an option agreement in respect of the Taza Block with the KRG and OSIL. ShaMaran and OSIL exercised their option to convert that agreement into the PSC.

The acquisition of 232 line-kilometers of 2D seismic data was concluded in May 2010 and identified a significant 90 square kilometer four-way dip closed structure, with structural relief of between 150 and 300m. This closure lies on the structural trend between the Jambur field and the Western Zagros Sarqala oil discovery to the south (with reported test rates of over 9,000 barrels of oil per day from the Jeribe formation). The Jeribe will be one of the main targets for the upcoming exploration well on the identified prospect which is in the planning phase with drilling operations expected to commence near the end of the second quarter of 2012.

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

Pulkhana Block

Operations were discontinued in the Pulkhana block after disappointing test results from the Pulkhana 9 well. The Pulkhana Block PSC was fully relinquished to the KRG with an effective date of January 17, 2012.

The Pulkhana Block is a 529 square kilometer appraisal/development area located in southern Kurdistan.

Prior to relinquishing this PSC the Company was the operator of the project with a 60% undivided interest in the production sharing contract. Petoil Petroleum and Petroleum Products International Exploration and Production Inc. retained a 20% interest in the PSC and the KRG holds the remaining 20%. The Company was required to pay 100% of the minimum financial commitment in respect of the first exploration phase, following which the Company would pay 75% of the forward costs.

Pulkhana-9 was spudded by the Company on April 3, 2011 and a total depth of 2,333 meters was reached on July 23, 2011. A comprehensive testing program of six well tests ("DST") recovered oil from four separate reservoir intervals, including two new reservoirs that predrilling had not been recognized as having resource potential. Due to the inability to obtain sustained flow rates the Company opted to sidetrack the well targeting the lower two zones (Shiranish and Balambo formations) using open hole "barefoot" testing. The well was sidetracked successfully, however the targeted formations flowed only limited quantities of oil to surface during open hole testing.

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

Arbat Block

On January 17, 2012 the Company completed the relinquishment to the KRG of the Arbat Block PSC.

The Arbat Block (formerly Block G) is a 973 square kilometer exploration area located in eastern Kurdistan.

Prior to relinquishing this PSC the Company was the operator of the project and held a 60% undivided interest in the PSC with the KRG holding a 20% interest and the remaining 20% a third party interest which the KRG has the option to assign to a third party or parties. The Company was required to pay 100% of the minimum financial commitment in respect of the first exploration sub period or until such time as the KRG's reserved 20% interest has been sold following which the Company would pay 75% of the forward costs and receive a reimbursement for 25% of the costs incurred to that date.

Fiscal terms under the PSC include a 10% royalty, a variable profit split, based on a percentage share to the KRG and a capacity building payment equal to 20% of the Company's profit oil share (produced oil, less royalty and cost oil) to be paid to the KRG. The Company has the right to recover costs using up to 45% of the available crude oil (produced oil less royalty oil) and 53% of the produced gas.

During the year 2011 the Company had initiated planning for the first well and had initiated an infill 2D seismic program in an attempt to establish a second drillable prospect. As a result of the decision to relinquish the PSC the seismic program was terminated December 22, 2011.

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

Selected Annual Information

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

(\$000s, except per share data)

	For the year ended December 31,		
	<u>2011</u>	<u>2010</u>	<u>2009*</u>
Continuing operations			
General and administrative expenses	(1,082)	(594)	(2,378)
Share-based payments	(264)	(570)	(546)
Depreciation and amortisation expense	(221)	(139)	(6)
Share of loss of associate	(271)	(27)	-
Impairment losses	(207,504)	-	-
Finance cost	(1,777)	(1,353)	(636)
Finance income	518	2,631	5,253
Income tax	(137)	(81)	(12)
Net income / (loss) from continuing operations	<u>(210,738)</u>	<u>(133)</u>	<u>1,675</u>
Discontinued operations			
Net revenues	-	-	1,658
Expenses	(1,279)	(1,037)	(2,041)
Interest income	-	-	24
Gain loss on sale of assets	1,078	77	1,600
Net income / (loss) from discontinued operations	<u>(201)</u>	<u>(960)</u>	<u>1,241</u>
Net income/(loss)	<u>(210,939)</u>	<u>(1,093)</u>	<u>2,916</u>
Basic income / (loss), \$ per share:			
Continuing operations	(0.31)	-	0.005
Discontinued operations	-	-	0.005
	<u>(0.31)</u>	<u>-</u>	<u>0.01</u>
Diluted income / (loss), \$ per share:			
Continuing operations	(0.31)	-	0.005
Discontinued operations	-	-	0.005
	<u>(0.31)</u>	<u>-</u>	<u>0.01</u>
Total assets	151,239	256,489	249,999
Working capital surplus	29,798	44,009	59,903
Shareholders' equity	125,259	235,518	244,563
Common shares outstanding (x 1,000)	807,984	623,182	499,546

*The amounts for 2009 are presented in accordance with Canadian GAAP and have not been restated to conform to IFRS.

Summary of principal changes in annual information

The Company spent \$103 million on exploration and evaluation activities in 2011, its second full year of operations in Kurdistan, consisting primarily of drilling, workover and testing costs incurred on the Pulkhana 8 and Pulkhana 9 wells and a capacity building payment issued to the KRG associated with the signing of the Taza Block PSC. The Company recorded an expense in December 2011 of \$207.5 million to provide for the impairment of exploration and evaluation, inventory, and property plant and equipment assets relating to the Pulkhana and Arbat Blocks which were ultimately relinquished to the KRG in January 2012. Also during the year 2012 the Company increased by \$7.5 million its investment in GEP, the company operating the Atrush Block, primarily through cash contributions which were required to fund the work program and budget on the Atrush Block. To finance its 2011 operations the Company raised funds in May and November 2011 through the issuance of a total of 183.5 million shares for gross proceeds of \$99.8 million (\$98.7 million net of issuance costs). As a result of these developments the total assets and shareholders' equity reported at the end of the year 2011 have decreased relative to the amounts reported in 2010 while common shares outstanding have increased. The income and expenses of the Company are explained in detail below.

Results of Continuing Operations

The continuing operations of the Company are currently in the exploration stages and generate no revenue. The expenses and income items of continuing operations are explained in detail as follows:

General and Administrative Expenses

<i>In \$000</i>	For the year ended December 31,	
	2011	2010
Salaries and benefits	3,623	2,526
Management and consulting fees	1,459	1,053
Sponsorship expense	1,025	485
General and other office expenses	1,159	416
Listing costs and investor relations	643	414
Travel expenses	413	327
Legal, accounting and audit fees	300	196
General and administrative expense incurred	8,622	5,417
Expenses and PSC overhead capitalized as E&E assets	(7,540)	(4,823)
Net general and administrative expenses	1,082	594

The Company capitalizes as E&E assets those general and exploration expenses incurred which relate to the operational aspects of the Company's E&E activities. In addition the PSCs governing the Company's petroleum properties in Kurdistan allow the operating company to include within petroleum costs an annual exploration overhead charge calculated on a sliding scale percentage of annual exploration costs. The exploration overhead charge qualifies as recoverable petroleum costs under the term of the PSCs and will be recovered from a portion of available petroleum production (produced oil less royalty oil) in the future.

The increase over the prior year G&A expenses incurred is due to the relative increase in current year technical and support required by the additional exploration operations on the Company's petroleum properties.

Share-Based Payments

<i>In \$000</i>	For the year ended December 31,	
	2011	2010
Share-based payments	264	570

The share-based payments expense results from the vesting of stock options granted in the years from 2009 to 2011. A total of 25,000 stock options were granted during the year ended December 31, 2011 (2010: 1,390,000). The Company uses the fair value method of accounting for stock options granted to directors, officers, employees and consultants whereby the fair value of all stock options granted is recorded as a charge to operations. The fair value of common share options granted is estimated on the date of grant using the Black-Scholes option pricing model.

Depreciation and Amortisation

<i>In \$000</i>	For the year ended December 31,	
	2011	2010
Depreciation and amortisation	221	139

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

Share of loss of associate

<i>In \$000</i>	For the year ended December 31,	
	2011	2010
Loss from investment in GEP	271	27

The loss relates to the Company's pro-rata portion of the net loss incurred by GEP in conducting exploration operations on the Atrush Block in Kurdistan. The Company acquired its 33.5% interest in GEP on August 27, 2010.

Impairment losses

<i>In \$000</i>	For the year ended December 31,	
	2011	2010
Write down of inventory to net realizable value	1,243	-
Provision for impairment of exploration and evaluation assets	205,862	-
Write down of property plant and equipment to liquidation values	399	-
Total impairment losses	207,504	-

As a result of the suspension in December 2011 of all operations associated with the Pulkhana and Arbat Blocks, and the relinquishment of these PSCs completed on January 17, 2012, the Company has determined that at December 31, 2011 there was impairment in the value of the exploration and evaluation assets incurred in respect of these PSCs and of certain drilling inventory and property, plant and equipment items which would no longer be used in drilling programs associated with the Pulkhana and Arbat Blocks due to their cancellation.

Finance cost

<i>In \$000</i>	For the year ended December 31,	
	2011	2010
Guarantee fees	915	1,353
Foreign exchange loss	862	-
Total finance cost	1,777	1,353

The Company has incurred fees in respect of a guarantee of the minimum financial obligations under the Pulkhana and Arbat PSCs. The guarantee which was provided to the KRG by a related company on behalf of ShaMaran became effective on August 29, 2009 and was charged at a rate of 3.0 % per annum up to June 30, 2010 and at 1.5% thereafter. Refer also to the discussions under "Commitments" and "Related Party Transactions" in this MD&A.

The foreign exchange loss in 2011 results primarily from holding cash and cash equivalents denominated in Canadian dollars while the Canadian dollar weakened during the year against the United States dollar which is the reporting currency of the Company.

Finance income

<i>In \$000</i>	For the year ended December 31,	
	2011	2010
Interest income	518	416
Foreign exchange gain	-	2,215
Total finance income	518	2,631

The foreign exchange gain in 2010 results primarily from holding cash and cash equivalents denominated in Canadian dollars while the Canadian dollar strengthened during the year against the United States dollar which is the reporting currency of the Company.

Interest income represents bank interest earned on cash and investments in marketable securities. The increase in the amounts reported in 2011 relative to the amount reported in the year 2010 is primarily due to higher interest rates received on the cash balances as well as higher average cash balances held throughout the year.

Income tax expense

<i>In \$000</i>	For the year ended December 31,	
	2011	2010
Income tax expense	137	81

Income tax expense relates to provisions for income tax on service income generated in Switzerland. The amount reported in 2011 has increased relative to the amount reported in 2010 due to a higher tax base relating to the cost of additional services incurred to support the higher levels of exploration activity in the year 2011.

Results of Discontinued Operations

The main components of discontinued operations are explained as follows:

Expenses

<i>In \$000</i>	For the year ended December 31,	
	2011	2010
Legal, accounting and audit fees	137	246
Management and consulting fees	3	308
General and other office expenses	61	144
Revision to asset retirement obligation	1,078	339
Total expenses	1,279	1,037

The revision to asset retirement obligation in 2011 relates to the provision for site restoration costs relating to the remaining interests the Company holds in petroleum properties located in the United States. The provision was determined based on the Company's remaining net ownership interest in the corresponding wells and facilities, estimated costs to abandon and reclaim the wells and facilities and the estimated timing of the costs to be incurred in future periods.

The decrease in fees and expenses in the year 2011 relative to the year 2010 is due to the reduction in activity associated with the Company's United States based operations following the sale in 2009 of substantially all of the properties located there. The decrease in fees and expenses in the year 2011 relative to the year 2010 is due to the reduction in activity associated with the Company's United States based operations following the sale in 2009 of substantially all of the properties located there. The legal, management and consulting fees which the Company continues to incur are related to the decommissioning and windup of its remaining properties and legal entities in the United States.

Gain on disposal of assets

<i>In \$000</i>	For the year ended December 31,	
	2011	2010
Gain on asset disposal	1,078	77

The Company received in April 2011 a cash payment of \$1,078 in respect of a 2009 agreement for the sale of petroleum properties located in the United States which allowed for a deferred purchase payment on the basis of proved reserves as defined at December 31, 2010. The gain of \$77 reported in year 2010 relates to the disposal of all remaining inventories located in the United States.

Selected Quarterly Information

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

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

	For the quarter ended							
	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31
	<u>2011</u>	<u>2011</u>	<u>2011</u>	<u>2010</u>	<u>2010</u>	<u>2010</u>	<u>2010</u>	<u>2010</u>
Continuing operations								
General and admin. (exp.) / recovery	(283)	202	(837)	(164)	628	(643)	(360)	(219)
Share-based payments	(21)	(70)	(114)	(59)	(83)	(73)	(161)	(254)
Depreciation and amortisation	(55)	(58)	(56)	(52)	(43)	(41)	(29)	(26)
Share of recovery / (loss) of associate	11	(173)	(30)	(79)	46	(73)	-	-
Impairment losses	(207,504)	-	-	-	-	-	-	-
Finance cost	(251)	(2,780)	(229)	(227)	9	(457)	(2,212)	(458)
Finance income	552	147	367	1,162	1,961	600	74	1,760
Income tax expense	(31)	(32)	(33)	(41)	(38)	(16)	(14)	(13)
Net inc. / (loss) from continuing ops.	<u>(207,582)</u>	<u>(2,764)</u>	<u>(932)</u>	<u>540</u>	<u>2,480</u>	<u>(703)</u>	<u>(2,702)</u>	<u>790</u>
Discontinued operations								
Expenses	(34)	(46)	(1,121)	(78)	(73)	(47)	(728)	(188)
Gain on sale of assets	-	-	1,078	-	-	-	-	77
Net from discontinued ops.	<u>(34)</u>	<u>(46)</u>	<u>(43)</u>	<u>(78)</u>	<u>(73)</u>	<u>(47)</u>	<u>(728)</u>	<u>(111)</u>
Net income / (loss)	<u>(207,616)</u>	<u>(2,810)</u>	<u>(975)</u>	<u>462</u>	<u>2,407</u>	<u>(750)</u>	<u>(3,430)</u>	<u>679</u>
Basic loss, \$ per share:								
Continuing operations	(0.28)	-	-	-	-	-	-	-
Discontinued operations	-	-	-	-	-	-	-	-
	<u>(0.28)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Diluted loss, \$ per share:								
Continuing operations	(0.28)	-	-	-	-	-	-	-
Discontinued operations	-	-	-	-	-	-	-	-
	<u>(0.28)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

Summary of principal changes in fourth quarter information

In the fourth quarter of 2011 the Company completed drilling and testing the Pulkhana 9 well and the workover and testing of the Pulkhana 8 well and subsequently suspended all operations in respect the Pulkhana and Arbat Blocks. The net loss in the fourth quarter was primarily driven by the impairment losses associated with the decision to relinquish the Pulkhana and Arbat Blocks.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Outstanding Share Data

As of December 31, 2011 the Company had 807,983,860 shares outstanding and 3,233,334 stock options outstanding under its employee incentive stock option plan. No warrants were outstanding.

The Company concluded a private placement on November 15, 2011 and issued 127.5 million common shares at \$CAD 0.40 per share for gross cash proceeds of \$CAD 51.0 million (\$CAD 49.7 million net of issuance costs).

On May 5, 2011 a private placement of an additional 56 million common shares at \$CAD 0.90 per share resulted in total cash proceeds of \$CAD 50.4 million (\$CAD 49.5 million net of issuance costs).

During the year 2011 a quantity of 25,000 (2010: 1,390,000) share options were granted while cancellations of share options were 50,000 (2010: 915,000). A quantity of 1,301,666 (2010: 25,000) options were exercised during the year 2011 resulting in cash proceeds of \$CAD 636 (2010: \$CAD 12,000).

Related Party Transactions

In \$000

	Purchases of services during the year		Amounts owing as at December 31	
	2011	2010	2011	2010
Namdo Management Services Ltd.	361	185	7	-
Mile High Holdings Ltd.	103	152	19	12
McCullough O'Connor Irwin LLP	56	41	14	-
Vostok Naphta Investment Ltd.	24	-	-	-
Lundin Petroleum AB	2,176	2,673	78	214
Total	2,720	3,051	118	226

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

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

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

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

The Company receives services from various subsidiary companies of Lundin Petroleum AB ("Lundin"), a shareholder of the Company. Lundin charges during the year ended December 31, 2011 of \$2,176 (2010: \$2,673) were comprised of G&G and other technical service costs of \$195 (2010: \$382), reimbursement for Company travel and related expenses of \$611 (2010: \$601), office rental, administrative and building services of \$455 (2010: \$328) and \$915 (2010: \$1,362) relating to a guarantee provided to the KRG on behalf of the Company in respect of its minimum financial commitments, payable semi-annually and charged at a rate of 1.5 % per annum (3.0% prior to July 1, 2010).

Included within general and administrative expenses are contributions totalling \$1,025 made in the year 2011 (2010: \$485) to a charitable foundation whose Chairman is a major shareholder of the Company. Funds from this charity, in part, are used for community investment activity in Kurdistan.

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

Liquidity and Capital Resources

Working capital at December 31, 2011 totaled \$29.8 million compared to \$44.0 million at December 31, 2010.

The overall cash position of the Company decreased by \$9.6 million during the year 2011 compared to an increase in cash of \$4.9 million during the year 2010. The primary components of the movement in funds are discussed in the following paragraphs.

The operating activities of the Company during the year 2011 resulted in an increase in the cash position by \$10.5 million compared to a decrease by \$2.3 million in the year 2010. Increased trade payable balances are the primary reason for the increase in 2011 cash position due to operating activities.

Net cash used in investment activities during the year 2011 was \$119.7 million compared to funds used in 2010 in the amount of \$52.7 million. The main components of cash used was \$100.1 million spending on E&E costs related to the Company's petroleum properties in Kurdistan, which included a payment to the KRG of \$20 million as a capacity building bonus in respect of the Taza Block PSC, and \$20.4 million in cash contributions to GEP to fund joint operations on the Atrush Block and to pay down the deferred purchase consideration which was outstanding at the end of the year 2010.

The Company received financing funds net of issuance costs amounting to \$99.8 million during the year 2011 (\$CAD 99.2 million) in respect of May and November private placements of a total of 183.5 million common shares of ShaMaran and an additional \$661 in cash was received from the exercise of share options in the year 2011. During the year 2010 the Company received financing funds net of issuance costs of \$47.8 million (\$CAD 49.3 million) relating to the private placement in September of 111.1 million common shares of the Company.

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

The share based payments reserve decreased by \$140 in the year 2011 because the value of stock options exercised during the year exceeded the issuance of share-based payments. In the year 2010 the share based payments reserve increased by \$563 relating to the issuance of share-based payments. 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 to share capital.

Commitments

Production Sharing Contracts

At December 31, 2011 the Company held direct and indirect interests in four production sharing contracts ("PSCs") which govern petroleum operations in the Atrush, Taza (formerly K42), Pulkhana and Arbat Block petroleum exploration and development properties located in Kurdistan.

The PSCs contemplate minimum financial commitments during the first exploration sub-period and also require the Contractor to fund certain community development, personnel, training, environmental, and technological assistance projects during the period over which the contracts are in effect. At any time during the exploration period the Contractor has the right to terminate the PSCs by surrendering the entire contract area. All modifications to the PSC's are subject to the approval of the KRG.

As at December 31, 2011, the Company the outstanding commitments of the Company were as follows:

<i>In \$000</i>	2012	2013	2014	Thereafter	Total
General Exploration Partners Inc	27,002	-	-	-	27,002
Taza Block PSC	4,417	1,667	1,667	-	7,751
Pulkhana Block PSC (*see Note below)	30,000	-	-	-	30,000
Arbat Block PSC (*see Note below)	20,000	-	-	-	20,000
Office and other	125	-	-	-	125
Total commitments	81,544	1,667	1,667	-	84,878

* Note: The Company took the decision in December 2011 to relinquish to the KRG the Pulkhana and Arbat Block PSCs and immediately suspend all operations associated with those two PSCs. The relinquishment was subsequently completed in January 17, 2012 whereby the Company was released from any further obligation under these two PSCs in exchange for fees totaling \$25 million which were paid to the KRG on January 25, 2012.

Shamaran holds 33.5% of the issued shares of General Exploration Partners Inc (“GEP”) which holds an 80% working interest in the Atrush Block PSC. Marathon Oil Corporation holds the remaining 20% interest with the KRG holding an option to acquire up to a 25% interest in the PSC prior to 180 days after declaration of a commercial discovery. GEP is responsible for 80% of the approved annual work program and budget within the appraisal period now in progress.

The Company currently holds a 20% working interest in the Taza PSC, and Oil Search Iraq Limited (“OSIL”) is the operator with a 60% working interest in the PSC. The KRG holds a 20% working interest in the PSC with costs carried by Shamaran and OSIL. The Company had previously been a party to an option agreement in respect of the Taza Block with the KRG and OSIL. Shamaran and OSIL exercised their option on July 27, 2011 to convert that agreement into the PSC.

At December 31, 2011 the Company held a 60% undivided interest in the Pulkhana Block PSC, Petoil Petroleum and Petroleum Products International Exploration and Production Inc (“Petoil”) held a 20% interest and the remaining 20% was held by the Kurdistan Regional Government (the “KRG”). The Company was required to pay 100% of the minimum financial commitment in respect of the first exploration sub-period which is 36 months from the commencement of the PSC with option to extend by one year.

The Company held at December 31, 2011 a 60% undivided interest in the Arbat PSC, the KRG held a 20% interest and the remaining 20% was a third party interest which the KRG held the option to assign to a third party or parties. The Company was required to pay 100% of the minimum financial commitment in respect of the first exploration sub-period or until such time as the KRG’s reserved 20% interest has been sold following which the Company would have paid 75% of the forward costs and receive a reimbursement for 25% of the costs incurred to that date.

Financial Instruments

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

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

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

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

Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company manages its credit risk through monitoring counterparty ratings and credit limits. The Company is mainly exposed to credit risk on its cash and cash equivalents and accounts receivable. To manage this risk the Company maintains its excess cash on account in instruments having a minimum credit rating of R-1 (mid) or better (as measured by Dominion Bond Rate Services) or the equivalent thereof according to a recognized bond rating service.

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

Liquidity Risk

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

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

Market Risk

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

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

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

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

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

Uncertainty of title

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

Risks and Uncertainties

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

Political Issues

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

Legislative Issues

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

Marketing, Markets and Transportation

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

Exploration, Development and Production Risks

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

Project Risks

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

Substantial Capital Requirements

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

Additional Funding Requirements

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

Dilution

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

Accounting Policies and Critical Accounting Estimates

Use of Estimates

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

Accounting for Oil and Gas Operations

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

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

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

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

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

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

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

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

The Company engaged McDaniel & Associates Consultants Ltd ("McDaniel"), an independent geoscience consultancy firm, to evaluate 100% of the Company's reserves and resource data at December 31, 2011. 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).

The Company's crude oil and natural gas contingent resources for all four of the Company's assets as of December 31, 2011 were estimated to be as follows:

COMPANY GROSS ESTIMATED CONTINGENT RESOURCES AS OF DECEMBER 31, 2011
MBBL, MMCF (1) (2) (3) (4)

	Low Estimate (1C)	Best Estimate (2C)	High Estimate (3C)	Mean (3) Estimate
Crude Oil (Mbbbl)	82,276	143,618	257,315	159,388
Natural Gas (MMcf)	16,462	28,279	50,956	31,651
Total Company (Mboe)	85,020	148,331	265,807	164,663

- (1) There is no certainty that it will be commercially viable to produce any portion of the resources.
- (2) Company Gross resources are based on working interest share of the property gross resources.
- (3) The statistical mean is provided in addition to the standard 1C, 2C and 3C resource categories.
- (4) Based on arithmetic aggregation of the low (P90) and high (P10) estimates for the individual fields; statistically therefore the low (1C) estimate presented above has a greater than 90 percent chance of being exceeded and the high (3C) estimate has a lower than 10 percent chance of being exceeded.

The Company's crude oil, condensate and natural gas prospective resources for all four of the Company's assets as of December 31, 2011 were estimated to be as follows:

COMPANY GROSS ESTIMATED PROSPECTIVE RESOURCES AS OF DECEMBER 31, 2011
MBBL, MMCF (1) (2) (3) (4)

	Unrisked Low Estimate	Unrisked Best Estimate	Unrisked Mean Estimate	Unrisked High Estimate	Risked (2) Mean Estimate
Crude Oil (Mbbbl)	58,351	133,935	165,327	310,185	70,401
Condensate (Mbbbl)	2,801	6,912	8,868	17,108	4,840
Natural Gas (MMcf)	224,156	494,500	592,963	1,077,592	196,031
Total Company (Mboe)	98,512	223,264	273,022	506,892	107,912

- (1) There is no certainty that any portion of the resources will be discovered. If discovered, there is no certainty that it will be economically 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) Based on arithmetic aggregation of the low (P90) and high (P10) estimates for the individual prospects; statistically therefore the low estimate presented above has a greater than 90 percent chance of being exceeded and the high estimate has a lower than 10 percent chance of being exceeded.
- (4) Company Gross resources are based on working interest share of the property gross resources.

As the Pulkhana and Arbat Blocks were relinquished January 17, 2012 (after the effective date of McDaniel's report) the contingent and prospective resources excluding these blocks were summarized by McDaniels as follows:

**COMPANY GROSS ESTIMATED CONTINGENT RESOURCES
EXCLUDING PULKHANA AND ARBAT BLOCKS
AS OF DECEMBER 31, 2011**

MBBL, MMCF (1) (2) (3) (4) (5)

	Low Estimate (1C)	Best Estimate (2C)	High Estimate (3C)	Mean (3) Estimate
Crude Oil (Mbbbl)	71,149	120,177	209,641	132,272
Natural Gas (MMcf)	16,243	27,630	49,379	30,846
Total Company (Mboe)	73,856	124,782	217,871	137,413

- (1) These estimates are provided for information purposes only as they exclude Pulkhana and Arbat Blocks.
- (2) There is no certainty that it will be commercially viable to produce any portion of the resources.
- (3) Company Gross resources are based on working interest share of the property gross resources.
- (4) The statistical mean is provided in addition to the standard 1C, 2C and 3C resource categories.
- (5) Based on arithmetic aggregation of the low (P90) and high (P10) estimates for the individual fields; statistically therefore the low (1C) estimate presented above has a greater than 90 percent chance of being exceeded and the high (3C) estimate has a lower than 10 percent chance of being exceeded.

The Company's crude oil, condensate and natural gas prospective resources excluding the Pulkhana and Arbat Blocks as of December 31, 2011 were estimated to be as follows:

**COMPANY GROSS ESTIMATED PROSPECTIVE RESOURCES
EXCLUDING PULKHANA AND ARBAT BLOCKS
AS OF DECEMBER 31, 2011**

MBBL, MMCF (1) (2) (3) (4) (5)

	Unrisked Low Estimate	Unrisked Best Estimate	Unrisked Mean Estimate	Unrisked High Estimate	Risked (2) Mean Estimate
Crude Oil (Mbbbl)	31,031	61,302	70,616	120,749	45,439
Condensate (Mbbbl)	1,861	4,402	5,674	10,884	4,325
Natural Gas (MMcf)	60,739	133,235	166,635	312,564	126,554
Total Company (Mboe)	43,016	87,910	104,062	183,726	70,856

- (1) These estimates are provided for information purposes only as they exclude Pulkhana and Arbat Blocks.
- (2) There is no certainty that any portion of the resources will be discovered. If discovered, there is no certainty that it will be economically viable or technically feasible to produce any portion of the resources.
- (3) These are partially risked prospective resources that have been risked for chance of discovery, but have not been risked for chance of development.
- (4) Based on arithmetic aggregation of the low (P90) and high (P10) estimates for the individual prospects; statistically therefore the low estimate presented above has a greater than 90 percent chance of being exceeded and the high estimate has a lower than 10 percent chance of being exceeded.
- (5) Company Gross resources are based on working interest share of the property gross resources.

The estimation of reserves and resources is subjective. Forecasts are based on engineering data, future prices, expected future rates of production and the timing of capital expenditures, all of which are subject to uncertainties and interpretations. The Company had no reserves at December 31, 2011.

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

International Financial Reporting Standards

International Financial Reporting Standards (“IFRS”) replaced Canadian GAAP for publicly accountable enterprises for with fiscal years commencing January 1, 2011. The Company has adopted IFRS for the interim and annual periods beginning on January 1, 2011 and has reported comparative information for the year 2010.

The overall impact of the adjustments to the balance sheet, statement of comprehensive income and statement of cash flows conversion from Canadian GAAP to IFRS is considered to be insignificant.

The following notes explain the adjustments made in converting from Canadian GAAP to IFRS:

- i. In accordance with *IFRS 6 Exploration for and evaluation of Mineral Resources* the Company’s accounting policy is to record as E&E assets those costs of exploring and evaluating oil and gas properties including payments to acquire the legal right to explore, costs of technical services and studies, seismic acquisition and exploratory drilling and testing. Under Canadian GAAP these costs were included within PP&E as petroleum properties. Accordingly, the conversion from Canadian GAAP to IFRS has increased intangible assets and reduced PP&E by \$185.0 million at January 1, 2010 and \$149.9 million at December 31, 2010.
- ii. *IFRS 2 Share-based payments* requires that the cost of equity-settled share-based payments granted to directors, employees and other third parties is expensed over the vesting period using the graded method of amortisation rather than a straight-line method which was the method used by the Company under Canadian GAAP. As a result the conversion from Canadian GAAP to IFRS has increased the share based payments reserve and reduced accumulated deficit at the date of transition by \$45 and increased share based payment expenses by \$56 for the year ended December 31, 2010.

Information relating to the Company’s accounting policies and transition to IFRS is included in notes 2, 3 and 5 of the Consolidated Financial Statements.

Outlook

The outlook for the year 2012 for the two blocks which the Company holds interests in Kurdistan is as follows:

Atrush Block

The operating company (GEP) had completed more than half of the planned 309 square kilometers for the 3D seismic acquisition program by the end of December 2011 when operations were suspended because of the winter weather. Operations to acquire the balance portion of the 3D Seismic will commence by the end of the first quarter 2012 and are likely to be completed by the end of second quarter 2012. The Atrush-2 well location is under construction and GEP is in the process of tendering for a rig for a planned commencement of drilling operations in May 2012.

Taza Block (Formerly Block K42)

Preparations for drilling the first Taza exploration well will continue over the coming months. The surface location of the well has been selected and civil engineering works for site access road and the site preparation are under way. The planned commencement of drilling operations is for the end of the second quarter of 2012.

New Ventures

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

Budget

The capital and operating budget approved by the Board of Directors for the year 2012 was for \$80.6 million. The budget contains amounts relating to the work programs of the two Kurdistan petroleum properties, net to the Company, as follows: \$29.3 million for the Atrush Block, \$16.3 million for the Taza Block, combined relinquishment fees for the Pulkhana and Arbat Blocks of \$25.0 million, \$3.8 million in final costs to windup operations in Pulkhana and Arbat and \$6.2 million in G&A support and corporate costs. The Company has a number of financing possibilities which will be pursued as required and is confident that it will obtain the resources sufficient to satisfy its contractual obligations and commitments under the agreed budgets.

General

The security situation in Kurdistan remains stable with no major reported incidents. The region is seeing a rapid development in infrastructure and a significant increase in the availability of oil and gas services in the country. Based on current reports oil exports from Kurdistan are now around 175,000 bopd. Several major international oil companies, most recently Exxon Mobil, have acquired properties in Kurdistan over the last two years. In addition, the KRG announced in May 2011 that KRG contractors would receive first payment for oil exports of around 50 percent (US\$243 million) of net revenues derived from the export of over 5 million barrels of oil from the Kurdistan Region between the start of February 2011 and March 27 and on June 6 and September 21 one of the KRG contractors, DNO International ASA, confirmed that it had received payment for exports in the amounts of \$103.7 million and 60.0 million, respectively. These are extremely positive developments for the region.

Forward-Looking Statements

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

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

Additional Information

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