SHAMARAN PETROLEUM CORP.

MANAGEMENT DISCUSSION AND ANALYSIS
For the three and six month periods ended June 30, 2011 and 2010
(Expressed in United States Dollars unless otherwise indicated)

Management's discussion and analysis ("MD&A") of the financial and operating results of ShaMaran Petroleum Corp. ("ShaMaran" together with its subsidiaries the "Company") is prepared as of August 5, 2011. The MD&A should be read in conjunction with the unaudited consolidated interim financial statements for the three and six months ended June 30, 2011 together with the accompanying notes. Unless otherwise stated herein, all dollar amounts are expressed in US dollars ("USD").

These financial statements 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 four 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.
- 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. Oil indications have been seen in all of the four targeted Pulkhana reservoirs. A comprehensive well testing program which could include up to five tests has commenced and is expected to be completed in early September 2011.
- 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.
- The Appraisal Work Program on the Atrush Block has been submitted to the KRG. The program consists of 3D seismic, a number of wells and studies leading to the possible installation of an Early Production facility in 2012. 3D seismic acquisition operations commenced on the block in July 2011 and planning for the Atrush-2 well is currently in progress.
- Trading of the common shares of the Company on the NASDAQ OMX First North Exchange (Stockholm) commenced at the market opening on June 22, 2011.
- Cash proceeds of $CAD 50.4 million ($CAD 49.5 million net of issuance costs) were raised by the Company through a private placement of 56 million common shares at $CAD 0.90 per share which was concluded on May 5, 2011.
- Cash balance of the Company was $72.0 million as at June 30, 2011.

Operations in Kurdistan

The Company has direct working interests in each of the Pulkhana Block, the Arbat Block and the Taza Block (formerly Block K42) and has 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 30 mid to large size international oil companies

Atrush Block

The Atrush Block is a 269 square km exploration area in the north of Kurdistan located immediately north and adjacent to the major Shaikan discovery announced by Gulf Keystone Petroleum Ltd. in January 2010. The Atrush Block is also adjacent to and on trend with the recent Bijeel oil discovery to the east, operated by Kalegran Limited (MOL). The 2D seismic data over the Atrush Block indicates that the Atrush structure is similar to the Shaikan structure. The Shaikan discovery was announced as multiple stacked oil reservoirs in the Cretaceous, Jurassic and Triassic sections and tested individually at flow rates up to 7,000 bopd.

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.

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. . 3D seismic acquisition operations have commenced on the block in July 2011 and planning for the Atrush-2 well is currently in progress.

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

Pulkhana Block

The Pulkhana Block is a 529 square kilometer appraisal/development area located in southern Kurdistan. In 1956 the Pulkhana 5 discovery well entered two fractured carbonate reservoirs and flow tested over 2,900 barrels of oil per day.

The Company is 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. retains a 20% interest in the PSC and the KRG holds the remaining 20%. The Company is required to pay 100% of the minimum financial commitment in respect of the first exploration phase, following which the Company will pay 75% of the forward costs.

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 40% of the available crude oil (produced oil less royalty oil) and 50% of the produced gas. In April 2010 the Company completed the acquisition of 291.4 line kilometers of two dimensional (2D) seismic data in the Pulkhana Block.

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. Oil indications have been seen in all of the four targeted Pulkhana reservoirs. A comprehensive well testing program has commenced and is expected to be completed in early September 2011.

The Company has received KRG approval to contract the existing Sakson 101 rig for an additional two firm and two option wells. The rig is going to be moved directly to Pulkhana-10 once operations on Pulkhana-9 have been completed. The Company has also signed a Letter of Intent (subject to inspection) for a rig to workover the legacy Pulkhana-8 well which is likely to commence in September.

In addition the Company is progressing with the feasibility study and design for the Pulkhana Early Production Facility ("EPF") planned to be installed in the year 2012. The first 3 wells (Pulkhana 8, 9 and 10) will be connected to the EPF, with the possibility to expand as future development wells are drilled.

In August 2012 the Company will then have the option to continue on to a further two year exploration phase and if development is warranted a development period of up to 20 years with an automatic right to a five year extension.

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

Arbat Block

The Arbat Block (formerly Block G) is a 973 square kilometer exploration area located in eastern Kurdistan. The Block contains both surface anticlines and subsurface structures all identified by recent field work and 2D seismic. The Block also has a number of oil seeps several of which were discovered during the 2010 seismic operations.

The Company is the operator of the project and holds a 60% undivided interest in the PSC, the KRG holds a 20% interest and the remaining 20% is a third party interest which the KRG has the option to assign to a third party or parties. The Company is 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 will 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.

In October 2010 the Company completed the acquisition of 429.1 kilometer of 2D seismic data on the Arbat Block. Construction for the Arbat-A well location has been approved by the KRG and will commence shortly. The well is to be situated approximately 3km north of Arbat town and is expected to start drilling before year end. The Company is preparing to go to tender for an infill 2D seismic program to better define several significant leads in the block as potential drilling prospects for the Company’s second obligation well.

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

Taza Block (formerly Block K42)

Taza Block is a 511 square kilometer exploration area located in the South of Kurdistan immediately northeast of the Pulkhana Block, and is 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.

Fiscal terms of the PSC include a 10% royalty, a variable profit split, based on a percentage share to the KRG, a capacity building value equal to 20% of the Company’s share of profit petroleum (produced oil, less royalty and cost oil) to be paid to the KRG. The Company has the right to recover petroleum costs using up to 40% of the available crude oil (produced oil less royalty oil) and 50% of the produced gas.

The acquisition of 232 line-kilometres of 2D seismic data was concluded in May 2010 and identified a significant 90 square kilometre four-way dip closed structure, with structural relief of between 100 & 300m. This closure lies on the structural trend between the Jambur field and the recently announced 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 expected to be drilled in 2012.

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

Selected Quarterly Information

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

($000s, except per share data)	For the Quarter Ended							
	Jun 30 2011	**Mar 31 2011**	**Dec 31 2010**	**Sep 30 2010**	**Jun 30 2010**	**Mar 31 2010**	**Dec 31 2009***	**Sep 30 2009***
Continuing operations								
General and administrative	(837)	(164)	628	(643)	(360)	(219)	(556)	(642)
Share-based payments	(114)	(59)	(83)	(72)	(161)	(254)	(144)	(366)
Depreciation	(56)	(52)	(43)	(41)	(29)	(26)	(6)	-
Share of loss of affiliate	(30)	(79)	46	(73)	-	-	-	-
Finance cost	(229)	(227)	9	(456)	(2,212)	(458)	(636)	-
Finance income	367	1,162	1,961	600	74	1,760	108	4,205
Income tax expense	(33)	(41)	(38)	(16)	(14)	(13)	(12)	-
Net inc. / (loss) from continuing ops.	(932)	540	2'480	(701)	(2'702)	790	(1'246)	3'197
Discontinued operations								
Net revenues	-	-	-	-	-	-	-	-
Expenses	(43)	(78)	(77)	(48)	(728)	(190)	1,449	119
Interest income	-	-	4	-	-	2	3	12
Gain / (loss) on sale of assets	-	-	-	-	-	77	(4)	(173)
Net inc. / (loss) from discontinued ops.	(43)	(78)	(73)	(48)	(728)	(111)	1,448	(42)
Net income / (loss)	(975)	462	2'407	(749)	(3,430)	679	202	3,155
Basic income / (loss), $ per share:								
Continuing operations	-	-	-	-	(0.01)	-	-	0.01
Discontinued operations	-	-	-	-	-	-	-	-
	-	-	-	-	(0.01)	-	-	0.01
Diluted income / (loss), $ per share:								
Continuing operations	-	-	-	-	(0.01)	-	-	0.01
Discontinued operations	-	-	-	-	-	-	-	-
	-	-	-	-	(0.01)	-	-	0.01

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

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

In $000	**Three months ended June 30,**		**Six months ended June 30,**	
	2011	**2010**	**2011**	**2010**
Salaries and benefits	864	548	1,913	1,029
Management and consulting fees	361	167	692	335
Sponsorship expense	526	-	527	-
General and other office expenses	271	181	491	273
Listing costs and investor relations	358	216	436	220
Travel expenses	106	69	222	142
Legal, accounting and audit fees	124	6	253	118
Expenses capitalized as E&E assets	(1,773)	(827)	(3,533)	(1,538)
Total general and administrative expenses	837	360	1,001	579

The increase in G&A expenses over the comparative periods of the prior year is primarily due to the increase in technical and support associated with the additional exploration activity on the Company's petroleum properties relative to the same periods last year, the non-recurring sponsorship expense and additional cost associated with listing the Company's shares on the First North Exchange in Sweden which were incurred in the 2011 reporting periods.

Share-Based Payments

In $000	**Three months ended June 30,**		**Six months ended June 30,**	
	2011	**2010**	**2011**	**2010**
Share-based payments	114	161	173	415

The share-based payments expense results from the vesting of stock options granted in the years from 2009 to 2011. A total of 1,390,000 stock options were granted during the year ended December 31, 2010 (2009: 2,085,000). There have been no options granted in the first six months of the year 2011. 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 Amortization

In $000	**Three months ended June 30,**		**Six months ended June 30,**	
	2011	**2010**	**2011**	**2010**
Depreciation and amortization	56	29	108	55

Depreciation and amortization 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 from affiliate

In $000	**Three months ended June 30,**		**Six months ended June 30,**	
	2011	**2010**	**2011**	**2010**
Loss from investment in GEP	30	-	109	-

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 during the reporting periods of 2011. The Company acquired its 33.5% interest in GEP on August 27, 2010.

Finance cost

In $000	Three months ended June 30,		Six months ended June 30,	
	2011	**2010**	**2011**	**2010**
Guarantee fees	229	448	456	906
Foreign exchange loss	-	1,764	-	70
Total finance cost	229	2,212	456	976

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 the 2010 reporting periods result primarily from holding cash and cash equivalents denominated in Canadian dollars while the Canadian dollar weakened during the reporting periods against the United States dollar which is the reporting currency of the Company.

Finance income

In $000	Three months ended June 30,		Six months ended June 30,	
	2011	**2010**	**2011**	**2010**
Interest income	168	74	277	140
Foreign exchange gain	199	-	1,252	-
Total finance income	367	74	1,529	140

The foreign exchange gain in the 2011 reporting periods result primarily from holding cash and cash equivalents denominated in Canadian dollars while the Canadian dollar strengthened during the reporting periods 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 amounts reported in the comparable periods of 2010 is primarily due to higher interest rates received on the cash balances as well as higher average cash balances held throughout the reporting periods.

Income tax expense

In $000	Three months ended June 30,		Six months ended June 30,	
	2011	**2010**	**2011**	**2010**
Income tax expense	33	14	74	27

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

Results of Discontinued Operations

The main components of discontinued operations are explained as follows:

Expenses

In $000	Three months ended June 30,		Six months ended June 30,	
	2011	**2010**	**2011**	**2010**
Asset retirement obligation	-	339	-	339
Management and consulting fees	3	120	3	235
Legal, accounting and audit fees	16	158	73	200
General and other office expenses	24	111	45	145
Total expenses	43	728	121	919

The decrease in total expenses of the 2011 reporting periods relative to the comparable reporting periods of 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.

Interest income

In $000	Three months ended June 30,		Six months ended June 30,	
	2011	**2010**	**2011**	**2010**
Interest income	-	-	-	2

Interest income represents bank interest earned on cash and investments in marketable securities.

Gain on disposal of assets

In $000	Three months ended June 30,		Six months ended June 30,	
	2011	**2010**	**2011**	**2010**
Gain on asset disposal	-	-	77	77

The Company had a gain of $77 in the first six months of 2010 relating to the disposal of all remaining inventories located in the United States.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Outstanding Share Data

As of June 30, 2011 the Company had 680,483,860 shares outstanding and 3,208,334 stock options outstanding under its stock-based compensation plan. No warrants were outstanding.

During the month of April 2011 a quantity of 1,210,000 options were exercised at $CAD 0.48 resulting in proceeds of $CAD 581. 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).

Related Party Transactions

	Purchases of services for period ended June 30, Three months		Six months		Amounts owing (due from) at Jun 30,	
	2011	**2010**	**2011**	**2010**	**2011**	**2010**
Namdo Management Services Ltd.	109	32	176	87	(13)	1
Mile High Holdings Ltd.	-	215	31	215	-	-
McCullough O'Connor Irwin LLP	39	21	44	40	44	12
Vostok Naphta Investment Ltd	3	-	3	-	-	-
Lundin Petroleum AB	723	752	1,335	1,593	396	454
Total	**874**	**1,020**	**1,589**	**1,935**	**427**	**467**

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 three and six months ended June 30, 2011 of $723 (2010: $752) and $1,335 (2010: $1,593) were comprised of G&G and other technical service costs of $47 (2010: $52) and $68 (2010: $124), reimbursement for Company travel and related expenses of $331 (2010: $140) and $609 (2010: $333), office rental, administrative and building services of $116 (2010: $112) and $200 (2010: $230), and $229 (2010: $448) and $458 (2010: $906) relating to a guarantee provided to the KRG on behalf of the Company in respect of its minimum financial commitments, charged at a rate of 1.5 % per annum (2010: 3.0%) and payable semi-annually.

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

Liquidity and Capital Resources

Working capital at June 30, 2011 totaled $63,317 compared to $51,237 at June 30, 2010.

The cash position of the Company increased by $20,707 over the second quarter of 2011 compared to a decrease in cash of $9,815 during the second quarter of 2010. The cash position of the Company increased by $13,283 over the first six months of 2011 compared to a decrease in cash of $10,809 during the same period in 2010. The primary components of the movement in funds are discussed in the following paragraphs.

The operating activities of the Company during the second quarter of 2011 resulted in an increase in the cash position by $3,774 compared to a decrease by $2,652 in comparable period of 2010. During the first 6 months of 2011 the operating activities of the Company resulted in an increase in the cash position by $4,136 compared to a decrease by $2,387 in the comparable period of 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 second quarter of 2011 was $35,164 compared to funds used in second quarter of 2010 in the amount of $5,371. The main components of cash used were funding the investment in GEP in the amount of $11,443 and spending on E&E costs of $23,324 related to the Company's petroleum properties in Kurdistan. The Company used $44,095 in investing activities over the first six months of 2011 compared to $8,326 during the same period in 2010. The main components of cash used were funding the investment in GEP in the amount of $15,443 and spending on E&E costs of $28,327 related to the Company's petroleum properties in Kurdistan.

The Company received financing funds net of issuance costs in the second quarter of 2011 amounting to $51.3 million ($CAD 49.5 million) in respect of the private placement of 56 million common shares at $ CAD 0.90 per share and an additional $606 in cash was received from the exercise of share options. The exercise of share options over in the first quarter of 2011 contributed $56 in funds in addition to the financing funds generated in the second quarter of 2011. The Company had no significant financing activities during the first six months of 2010.

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 has sufficient financial resources to fund its contractual commitments under the current agreed work plan. Continuing operations are dependent on discovery of economic oil and gas reserves and ultimately on the attainment of profitable operations.

The share premium account decreased by $250 in the second quarter of 2011 (first 6 months of 2011: decrease of $231) compared to an increase of $161 in the comparable period of 2010 (first 6 months of 2010: increase of $415) due to share-based payments expense and stock options exercised during the periods. 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 premium are transferred to share capital. There were 1,210,000 options exercised during the second quarter of 2011 (first 6 months of 2011: 1,301,666).

Commitments

Production Sharing Contracts

The Company had a combined $61.0 million minimum financial commitment in respect of the first exploration sub-period relating to the PSCs governing its petroleum operations in two separate petroleum exploration and development properties, the Pulkhana Block 10 ("Pulkhana Block") and the Arbat Block, located in the Kurdistan Region of Iraq. The PSCs also require the Company to fund certain personnel, training, environmental, and technological assistance projects, during the period over which the contracts are in effect. As at June 30, 2011 the Company had executed $11.0 million of its minimum financial obligations through the completion of its 2D seismic acquisition program in both Blocks.

Taza Block (Formerly Block K42)

As a party to the K42 Option Agreement the Company was required to contribute to the cost of conducting certain seismic services, including the acquisition of 2D seismic data. At June 30, 2011 the Company had concluded its remaining minimum commitments under the K42 Option Agreement.

At the date of the MD&A the Company had exercised its option to enter into a PSC and had entered into a PSC for this Block. Under the terms of the Taza Block PSC the Company is required to fund its pro-rata interest in the remaining minimum financial commitments which amount to $2.5 million. In addition the Company is required to pay capacity building bonus of $20 million during the second half of 2011, $5 million in respect of local community development projects over the next 3 years and to fund certain personnel, training, environmental, and technological assistance projects, during the period over which the contracts are in effect.

Investment in GEP

As part of the acquisition of GEP the Company agreed to contribute the next $15.8 million in cash required to fund GEP's oil exploration and development operations. As at June 30, 2011 the Company had completed payment of this obligation.

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, stock-based compensation, amortization and impairment write-downs. Actual results could differ from these estimates and differences could be material.

Accounting for Oil and Gas Operations

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

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

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

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

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

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

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

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

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

There were no changes in the second quarter of 2011 to the resources reported by the Company at March 31, 2011.

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 & 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, $193.9 million at June 30, 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 amortization 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 premium account and reduced accumulated deficit at the date of transition by $45 and increased share based payment expenses by $47 and $97 for the three and six months ended June 30, 2010 and $56 for the year ended December 31, 2010.

iii. For the periods ended June 30, 2010 and January 1, 2010 the assets and liabilities associated with the Company's discontinued operations were not presented separately on the Canadian GAAP consolidated balance sheet. Under *IFRS 5 Non-current Assets Held for Sale and Discontinued Operations* the assets and liabilities associated with discontinued operations are presented separately from other assets and liabilities on the consolidated balance sheet and separate disclosure of the major classes of assets and liabilities should be included within the notes to the consolidated financial statements. Therefore current assets held by continuing operations have been decreased by $0.8 million at January 1, 2010 and $0.4 million at June 30, 2010, current liabilities held by continuing operations have been decreased by $2.8 million at January 1, 2010 and $2.8 million at June 30, 2010 and non-current liabilities held by continuing operations have been decreased by $0.4 million at January 1, 2010 and $0.4 million at June 30, 2010 in converting from Canadian GAAP to IFRS.

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

Outlook

The outlook for the remainder of the year 2011 for the four blocks which the Company holds interests in Kurdistan is as follows:

Atrush Block

Atrush 1 was drilled to a total depth of 3,400 meters on January 21, 2011 and the comprehensive well testing program which concluded on April 13, 2011 confirmed a major oil discovery. Consistent with the Appraisal Work Program 3D seismic acquisition operations commenced on the block in July 2011. Planning for the Atrush-2 well is currently in progress and drilling is expected to commence in 2012.

Pulkhana Block

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. Oil indications have been seen in all of the four targeted Pulkhana reservoirs. A comprehensive well testing program has commenced and is expected to be completed in early September 2011.

The Company has received KRG approval to contract the existing Sakson 101 rig for an additional two firm and two option wells. The rig is going to be moved directly to Pulkhana-10 once operations on Pulkhana-9 have been completed. A workover of the legacy Pulkhana-8 well will commence in the third quarter of 2011.

In addition the Company is progressing with the feasibility study and design for the Pulkhana Early Production Facility ("EPF") planned to be installed in the year 2012. The first 3 wells (Pulkhana 8, 9 and 10) will be connected to the EPF, with the possibility to expand as future development wells are drilled.

Arbat Block

Following completion of seismic interpretation the Company has received MNR approval for the location of the first commitment exploration well (designated Arbat-A). Site construction will commence shortly. The well is to be situated approximately 3km north of Arbat town and is expected to start drilling before year end. The Company is preparing to go to tender for an infill 2D seismic program to better define several significant leads in the block as potential drilling prospects for the Company's second obligation well.

Taza Block (Formerly Block K42)

Following the completion of 232.0 km of 2D seismic data acquisition the Company exercised its option to enter into a Production Sharing Contract and which was approved with the PSC signed on July 27, 2011. The Jeribe formation which has reported test rates of over 9,000 barrels of oil per day from the recently announced Western Zagros Sarqala oil discovery to the south of the Taza Block will be one of the main targets for the upcoming exploration well on the identified prospect which is expected to be drilled in 2012.

New Ventures

As part of its normal business the Company is actively pursuing new opportunities in the region.

Budget

The capital and operating budget approved by the Board of Directors for the year 2011 was for $122.9 million. The budget contains amounts relating to the work programs of the four Kurdistan petroleum properties as follows: $49.5 million for the Pulkhana Block, $16.5 million for the Atrush Block, $30.7 million for the Arbat Block, $21.6 million for Block K42, and $4.6 million in corporate costs. The Company currently has sufficient funds to meet its existing contractual commitments under the approved budget and plans to seek additional funding to finance the remainder of the capital and operating budget.

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. 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 one of the KRG contractors, DNO International ASA, confirmed that it had received payment for exports in the amount of $103.7 million. This is an extremely positive development 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 web-site at **www.shamaranpetroleum.com**.