

SHAMARAN PETROLEUM CORP.

MANAGEMENT DISCUSSION AND ANALYSIS

For the three months ended March 31, 2012

(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 May 18, 2012. The MD&A should be read in conjunction with the unaudited condensed interim consolidated financial statements for the three months ended March 31, 2012 together with the accompanying notes. The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. Unless otherwise stated herein all monetary amounts are expressed in US dollars ("USD").

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

- The Appraisal Work Program and Budget on the Atrush Block has been approved by the KRG. The Program consists of 3D seismic and a number of appraisal wells and studies.
- 3D seismic acquisition on the Atrush Block is in progress and on schedule to be completed by end of June 2012. Preparations for the Atrush-2 appraisal well are near complete and well spud is expected by end of May 2012. Planning for an Early Well Test facility and a third appraisal well is also underway.
- Location construction and contracting is on schedule for a June 2012 spud of the Taza-1 exploration well. The Romfor-101 drilling rig has been contracted to drill the well. The well is targeting the proven regional Tertiary reservoirs of the Miocene Jeribe formation which is confirmed as oil-bearing and highly productive at the on trend Sarqala-1 well, the Miocene Euphrates formation and the Oligocene Kirkuk Group.
- The Company signed final binding agreements with the KRG in January 2012 to relinquish the 60% working interests previously held in each of the Arbat and Pulkhana Production Sharing Contracts ("PSCs"). An amount of \$25 million was paid in January 2012 to the KRG as relinquishment fees and the agreements relieve the Company of any further obligations under these PSCs. Disappointing testing results from the Pulkhana 9 well led the Company to this decision.
- In February 2012 the Company received a Detailed Property Report ("the Report") from its independent qualified resources evaluator, McDaniel & Associates Consultants Ltd. The Report is as at December 31, 2011 and 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.
- On April 2, 2012 the Company secured short term financing of \$10 million from two related parties.

Operations in Kurdistan

The Company had at March 31, 2012 a direct working interest in the Taza Block and an indirect interest in the Atrush Block. Both 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.

In the three months ended March 31, 2012 preparations were underway for drilling in both the Atrush and Taza blocks. The well location for the Atrush-2 appraisal well and the Taza-1 exploration well were approved, the rig contracts awarded and the tendering processes for the remaining drilling services are in progress.

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 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 the 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 approved and under construction. The rig service contract has been awarded to DQE International (rig #31). The well is expected to spud before end of May 2012. Work is also underway to identify a location for the Atrush-3 well, with plans to commence drilling before the end of the year 2012.

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

Taza Block

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 and the WesternZagros Sarqala 1 oil discovery to the south. The producing Jambur field has estimated oil reserves in excess of one billion barrels and is connected to export infrastructure. Sarqala 1 is producing at approximately 5,000 bbls/day through early test facilities.

The Company's 100% owned subsidiary ShaMaran Petroleum BV entered into a 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 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. In the first quarter of 2012 site construction work commenced at the approved well location. The rig service contract has been awarded to Romfor International Ltd (rig #101). Drilling operations are expected to commence in June 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.

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 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							
	Mar 31 <u>2012</u>	Dec 31 <u>2011</u>	Sep 30 <u>2011</u>	Jun 30 <u>2011</u>	Mar 31 <u>2011</u>	Dec 31 <u>2010</u>	Sep 30 <u>2010</u>	Jun 30 <u>2010</u>
Continuing operations								
General and admin. recovery / (exp.)	(384)	(283)	202	(837)	(164)	628	(643)	(360)
Share-based payments recovery / (exp.)	2	(21)	(70)	(114)	(59)	(83)	(73)	(161)
Depreciation and amortisation	(49)	(55)	(58)	(56)	(52)	(43)	(41)	(29)
Share of recovery / (loss) of associate	(66)	11	(173)	(30)	(79)	46	(73)	-
Relinquishment costs	(25,732)	-	-	-	-	-	-	-
Impairment losses	(248)	(207,504)	-	-	-	-	-	-
Finance cost	-	(251)	(2,780)	(229)	(227)	9	(457)	(2,212)
Finance income	391	552	147	367	1,162	1,961	600	74
Income tax expense	(24)	(31)	(32)	(33)	(41)	(38)	(16)	(14)
Net inc. / (loss) from continuing ops.	(26,110)	(207,582)	(2,764)	(932)	540	2,480	(703)	(2,702)
Discontinued operations								
Expenses	(37)	(34)	(46)	(1,121)	(78)	(73)	(47)	(728)
Gain on sale of assets	-	-	-	1,078	-	-	-	-
Net from discontinued ops.	(37)	(34)	(46)	(43)	(78)	(73)	(47)	(728)
Net income / (loss)	(26,147)	(207,616)	(2,810)	(975)	462	2,407	(750)	(3,430)
Basic loss in \$ per share:								
Continuing operations	(0.03)	(0.28)	-	-	-	-	-	-
Discontinued operations	-	-	-	-	-	-	-	-
	(0.03)	(0.28)	-	-	-	-	-	-
Diluted loss in \$ per share:								
Continuing operations	(0.03)	(0.28)	-	-	-	-	-	-
Discontinued operations	-	-	-	-	-	-	-	-
	(0.03)	(0.28)	-	-	-	-	-	-

Summary of principal changes in first quarter information

The main activities in the first quarter of 2012 were the recommencement of the 3D seismic program on the Atrush Block and the preparation of the drilling programs for the Atrush-2 appraisal well and Taza 1 exploration well. In addition the Company completed the wind up of all operations associated with the Pulkhana and Arbat Block PSCs which were relinquished in January 2012. The net loss in the first quarter was primarily driven by the impairment losses associated with the relinquishments.

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>	Three months ended March 31,	
	2012	2011
Salaries and benefits	797	1,049
Management and consulting fees	325	331
Sponsorship expense	-	1
General and other office expenses	217	220
Listing costs and investor relations	42	78
Travel expenses	140	116
Legal, accounting and audit fees	113	129
General and administrative expense incurred	1,634	1,924
Expenses and PSC overhead capitalized as E&E assets	(1,250)	(1,760)
Net general and administrative expenses	384	164

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 PSCs governing 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 decrease in G&A expenses incurred in the first quarter of 2012 relative to the amount incurred in the same period of the prior year is primarily due to a decrease in technical support activities due to the relinquishment in January 2012 of the Company's two operated blocks, Arbat and Pulkhana. As a result of the relinquishment of its operated blocks the Company has not capitalized any PSC overhead charges to E&E assets in the first quarter of 2012 which has resulted in an increase in net general administrative expenses relative to the first quarter of the year 2011.

Share-Based Payments

<i>In \$000</i>	Three months ended March 31,	
	2012	2011
Share-based payments (recovery)/expense	(2)	59

The share-based payments expense results from the vesting of stock options granted in the years from 2010 to 2012. No stock options have been granted during the first three months of the year 2012 (year 2011: 25,000 and year 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.

Share based payment expense for the three months ended March 31, 2012 was \$10. Due to a reversal of \$12 in share based payments expensed in the fourth quarter of 2011 relating to forfeited stock options the Company has reported a net recovery of \$2 in share based payments for the three months ended March 31, 2012.

Depreciation and Amortisation

<i>In \$000</i>	Three months ended March 31,	
	2012	2011
Depreciation and amortisation	49	52

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*In \$000*

	Three months ended March 31,	
	2012	2011
Loss from investment in GEP	66	79

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.

Relinquishment costs*In \$000*

	Three months ended March 31,	
	2012	2011
Relinquishment fees	25,000	-
Costs to wind up Pulkana and Arbat operations	732	-
Total relinquishment costs	25,980	-

Under the terms of the January 17, 2012 agreements to relinquish the Pulkhana and Arbat Block PSCs the Company paid to the KRG on January 25, 2012 a total of \$25 million in fees which relieves the Company of all further obligations under the PSCs, including its remaining minimum financial commitments (\$50 million in total prior to relinquishing the PSCs) under the first exploration sub period. These fees are non-recoverable and have therefore been expensed together with all costs associated with winding up operations on these blocks incurred during the first quarter of 2012.

Impairment losses*In \$000*

	Three months ended March 31,	
	2012	2011
Write down of inventory to net realizable value	313	-
Recovery on provision to liquidate property plant and equipment	(65)	-
Total impairment losses	248	-

The loss on inventory is primarily due to the liquidation and restocking of certain drilling inventory which will no longer be used in drilling programs associated with the Pulkhana and Arbat Blocks due to their cancellation. In the course of liquidating property plant and equipment items associated with the relinquished blocks the Company has estimated that it will recover \$65 more than its previous estimate of net realizable value.

Finance cost*In \$000*

	Three months ended March 31,	
	2012	2011
Guarantee fees	-	227
Total finance cost	-	227

The Company incurred fees in the first quarter of the year 2011 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. As a result of having relinquished the Pulkhana and Arbat Blocks the guarantee is no longer required by the Company which has lead to a nil expense in the first quarter of the year 2012.

Finance income*In \$000*

	Three months ended March 31,	
	2012	2011
Interest income	24	109
Foreign exchange gain	367	1,053
Total finance income	391	1,162

Interest income represents bank interest earned on cash and investments in marketable securities. The decrease in the amounts reported in the first three months of 2012 relative to the amount reported in the same period of the year 2011 is primarily due to lower average cash balances held throughout the period.

The foreign exchange gain in the first quarters of the years 2012 and 2011 resulted primarily from holding cash and cash equivalents denominated in Canadian dollars while the Canadian dollar strengthened during the periods against the United States dollar which is the reporting currency of the Company.

Income tax expense

<i>In \$000</i>	Three months ended March 31,	
	2012	2011
Income tax expense	24	41

Income tax expense relates to provisions for income tax on service income generated in Switzerland. The amount reported in the first quarter of 2012 has decreased relative to the amount reported in 2011 due to a lower tax base relating to the cost of fewer services incurred to support the lower levels of exploration activity in the year to date.

Results of Discontinued Operations

The main components of discontinued operations are explained as follows:

Expenses

<i>In \$000</i>	Three months ended March 31,	
	2012	2011
Legal, accounting and audit fees	28	57
Management and consulting fees	-	13
General and other office expenses	9	7
Revision to asset retirement obligation	-	1
Total expenses	37	78

The decrease in fees and expenses in the first quarter of 2012 relative to the first quarter of the year 2011 is due to the reduction in activity associated with the Company's United States based operations following the sale in 2009 of substantially all of the properties located there. The professional and general fees which the Company continues to incur are related to the decommissioning and windup of its remaining properties and legal entities in the United States.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Outstanding Share Data

There was no change during the first quarter of 2012 in the number of common shares outstanding of the Company which was 807,983,860 at March 31, 2012.

On April 2, 2012 the Company issued a total of 3,000,000 of its common shares to two related parties in accordance with the terms of a debenture financing. The number of common shares outstanding of the Company was 810,983,860 at the date of this MD&A.

There were 2,648,334 stock options outstanding at March 31, 2012 under the Company's employee incentive stock option plan. During the three months ended March 31, 2012 there were no stock options granted (2011: nil) and no stock options exercised (2011: 91,666). Forfeitures of stock options during the first quarter of 2012 were 135,000 (2011: 50,000) while 450,000 stock options have expired (2011: nil).

The Company has no warrants outstanding.

Related Party Transactions

In \$000

	Purchases of services three months ended		Amounts owing at the reporting dates	
	31 Mar 12	31 Mar 11	31 Mar 12	31 Dec 11
Namdo Management Services Ltd.	70	67	24	7
Mile High Holdings Ltd.	-	31	-	19
McCullough O'Connor Irwin LLP	16	5	15	14
Vostok Naphta Investment Ltd.	10	-	-	-
Lundin Petroleum AB	172	612	52	78
Total	268	715	91	118

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 months ended March 31, 2012 of \$172 (2011: \$612) were comprised of G&G and other technical service costs of \$57 (2011: \$21), reimbursement for Company travel and related expenses of nil (2011: \$278), office rental, administrative and building services of \$115 (2011: \$84) and nil (2011: \$229) 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).

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.

Refer also to the discussion of debenture financing under the following section.

Liquidity and Capital Resources

Working capital at March 31, 2012 totaled \$1.3 million compared to \$39.4 million at March 31, 2011.

The overall cash position of the Company decreased by \$43.4 million during the first quarter of the year 2012 compared to a decrease in cash of \$7.4 million during the first quarter of 2011. The primary components of the movement in funds are discussed in the following paragraphs.

The operating activities of the Company during the first three months of 2012 resulted in a decrease in the cash position by \$41.6 million compared to an increase by \$0.4 million in the first three months of 2011. Payments to the KRG of \$25 million in accordance with the terms of the agreements to relinquish the Pulkhana and Arbat Blocks as well as a decrease by \$15.6 million in the accounts payable and accrued expense balances are the main reasons for the decrease in the year to date 2012 cash position due to operating activities.

Net cash used in investing activities during the first quarter of 2012 was \$2.2 million compared to funds used in the same period of 2011 in the amount of \$8.9 million. The main components of cash used in 2012 was \$2.4 million on exploration operational and support costs in the first quarter of 2012 relating to the 2012 work programs in the Taza and Atrush Blocks. Proceeds of approximately \$0.2 million were received in respect of sales of property plant and equipment.

The Company generated no funds from financing activities in the three months ended March 31, 2012. On April 2, 2012 the Company received \$10 million through a debenture financing agreement (the "Loan") entered into with two related parties. The Loan will mature and be payable on October 2, 2012 and can be prepaid up to that date without interest or penalty.

The Company does not currently generate cash flow from its oil exploration and development operations and has to date 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 \$2 in the first three months of 2012 due to a reversal of \$12 in share based payments forfeited which were previously expensed in the fourth quarter of 2011. There were no stock options exercised during this period. In the first three months of 2011 the share based payments reserve increased by a net of \$19 due to an increase by \$59 from share based payments expense combined with a decrease of \$40 from stock options exercised during that period. When options are granted the Black-Scholes option value method is used to calculate a value for the stock options. When the options are exercised the applicable amounts of share based payments are transferred from the reserve to share capital.

Commitments

Production Sharing Contracts

At March 31, 2012 the Company held direct and indirect interests in two PSCs which govern petroleum operations in the Atrush and Taza 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. All modifications to the PSC's are subject to the approval of the KRG.

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 Block 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.

As at March 31, 2012 the outstanding contractual commitments of the Company were as follows:

	For the year ending March 31,				Total
	2013	2014	2015	Thereafter	
General Exploration Partners Inc	25,662	-	-	-	25,662
Taza Block PSC	4,417	1,667	833	-	6,917
Office and other	89	-	-	-	89
Total commitments	30,168	1,667	833	-	32,668

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

There were no changes in the first quarter of 2012 to the resources previously reported by the Company as at December 31, 2011.

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 half of the planned initial 275 square kilometers for the 3D seismic acquisition program by the end of December 2011 (Phase 1) when operations were suspended because of winter weather. Subsequently planned 3D coverage has been expanded to cover a total of 310 square kilometers. Operations to acquire the balance portion of the 3D Seismic (Phase Two) recommenced during the first quarter 2012 and are on schedule to be completed by the end of second quarter 2012. Preparations for the Atrush-2 well are near complete.

The rig contract was awarded to DQE International and the well spud is expected before the end of May 2012. Atrush-2 is estimated to take 65 days and has a planned total depth of 1,750m. The well is situated approximately 3.5 km east of the Atrush-1 well and is planned as an appraisal of the Jurassic oil discovery.

The processed Phase One 3D seismic will be used to select a drilling location for Atrush-3. Tendering is also in progress for an Early Well Test facility (EWT) that is planned to be commissioned before the end of the year 2012. GEP also plans to re-enter and recomplete the Atrush-1 well for production so that it can be connected to the EWT along with Atrush-2. The complete processed 3D seismic from both phases will be used to select drilling candidates for the 2013 drilling campaign.

Taza Block

Preparations for drilling the first Taza exploration well continued during the first quarter. The surface location for the well was approved and civil engineering works for site access and well site are under way. Work is on schedule for the planned commencement of drilling operations before the end of June 2012. The Taza-1 well is estimated to take 102 days, has a planned total depth of 3,250m and is targeting proven regionally productive Tertiary reservoirs of the Jeribe, Euphrates and Kirkuk Group.

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, there have been a number of significant discoveries recently made in this 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.