SHAMARAN PETROLEUM CORP.

MANAGEMENT DISCUSSION AND ANALYSIS
For the three month periods ended March 31, 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 June 10, 2011. The MD&A should be read in conjunction with the unaudited consolidated interim financial statements for the three months ended March 31, 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 previous reporting periods the 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 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 with a planned total depth of approximately 2,700 meters. The well targets the proven Euphrates/Upper Jaddala and Shiranish oil reservoirs, as well as evaluating a further potential reservoir in the Lower Jaddala.
- Cash proceeds of $CAD 50.4 million ($CAD 49.1 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.
- McDaniel & Associates Consultants Ltd, the Company's independent qualified resource evaluator, provided the Company with a Detailed Property Report ("the Report") in March 2011 which was based on information prior to the appraisal drilling of Pulkhana and results from the Atrush-1 well. The Report includes 82,461,000 boe as best estimate of Company *Gross Estimated Contingent Resources* and 287,555,000 boe as the unrisked best estimate of Company *Gross Estimated Prospective Resources* for all four of the Company's assets.
- Cash balance of the Company was $51.3 million as at March 31, 2011.

Operations in Kurdistan

The Company has direct working interests in each of the Pulkhana Block, the Arbat Block and 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.

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 3rd April 2011. GEP notified the KRG of a major Jurassic oil discovery on the April 4, 2011 and is currently engaged in compiling the Discovery Report and Appraisal Work Program & Budget as required by the PSC. Tendering is underway for three dimensional (3D) seismic acquisition over the discovery which will commence in 2011 and the operator is in the early planning phase of the first appraisal well.

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.

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.

In April 2010 the Company completed the acquisition of 291.4 line kilometers of two dimensional (2D) seismic data in the Pulkhana Block. On April 3, 2011 the Company spudded its first well, the Pulkhana 9 appraisal well, with a planned total depth of approximately 2,700 meters targeting the proven Euphrates/Upper Jaddala and Shiranish oil reservoirs, as well as evaluating further potential reservoirs in the Jeribe & Lower Jaddala. ShaMaran also has Ministry of Natural Resources ("MNR") approval for the Pulkhana-10 appraisal well. The Company is tendering for a workover rig for the planned third quarter workover of Pulkhana-8 and at the same time progressing with the feasibility study and design for the Pulkhana Early Production Facility ("EPF") planned to be installed by the end of the year 2011. 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.

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.

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 seismic operations now complete.

In October 2010 the Company completed the acquisition of 429.1 kilometer of 2D seismic data on the Arbat Block in eastern Kurdistan. The Company has received MNR approval for the location of the first commitment exploration well (designated Arbat-A). Tendering and preparations are underway to enable drilling to commence by the end of the year 2011.

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 20% capacity building payment is a result of an amendment made to the PSC in August 2010, relieving the Company of its previous contractual requirement to issue 35 million common shares of the Company 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.

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

Block K42

Block K42 is a 505 square kilometer exploration area located in the South of Kurdistan immediately northeast of the Pulkhana Block, and is on trend with the 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 is a party to the K42 Option Agreement between the KRG and Oil Search (Iraq) Limited ("OSIL") which allows an option to the Company and OSIL to enter into a PSC with the KRG, the terms of which have been agreed in principle, relating to the exploration and development of petroleum resources in the Block K42.

In accordance with the Block K42 PSC OSIL is the operator and collectively with the Company represent the "Contractor". This K42 Option Agreement requires the Contractor to conduct certain seismic services, including the acquisition of 200 kilometers of seismic surveying, within the option period of 18 months commencing November 1, 2009. The option to enter into a PSC may be exercised by providing written notice to the KRG. The Contractor is to pay 100% of all the costs incurred during the option period, 25% of which are to be paid by the Company. Upon exercise of the option the Company would acquire not less than an undivided 20% interest in the PSC in respect of the Block K42 contract area, with OSIL holding a 60% interest and the KRG holding the remaining 20%.

The Company has fulfilled all its obligations under the Option Agreement by acquiring and processing 232 line kilometers of 2D seismic data in Block K42 in May 2010. This resulted in the identification of a significant 4-way dip-closed prospect. The Company has exercised its option to enter into a Production Sharing Contract and approval from the KRG is now pending.

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							
	Mar 31 2011	**Dec 31 2010**	**Sep 30 2010**	**Jun 30 2010**	**Mar 31 2010**	**Dec 31 2009***	**Sep 30 2009***	**Jun 30 2009***
Continuing operations								
General and administrative	(164)	628	(643)	(360)	(219)	(556)	(642)	(595)
Share-based payments	(59)	(83)	(72)	(161)	(254)	(144)	(366)	(81)
Depreciation	(52)	(43)	(41)	(29)	(26)	(6)	-	-
Share of loss of affiliate	(79)	46	(73)	-	-	-	-	-
Finance cost	(227)	9	(456)	(2,212)	(458)	(636)	-	-
Finance income	1,162	1,961	600	74	1,760	108	4,205	2,266
Income tax expense	(41)	(38)	(16)	(14)	(13)	(12)	-	-
Net inc. / (loss) from continuing ops.	540	2'480	(701)	(2'702)	790	(1'246)	3'197	1'590
Discontinued operations								
Net revenues	-	-	-	-	-	-	-	943
Expenses	(78)	(77)	(48)	(729)	(190)	1,449	119	(748)
Interest income	-	4	-	1	2	3	12	9
Gain loss on sale of assets	-	-	-	-	77	(4)	(173)	1,777
Net inc. / (loss) from discontinued ops.	(78)	(73)	(48)	(728)	(111)	1,448	(42)	1,981
Net income / (loss)	462	2'407	(749)	(3,430)	679	202	3,155	3,571
Basic income / (loss), $ per share:								
Continuing operations	-	-	(0.01)	-	-	-	0.01	0.01
Discontinued operations	-	-	-	-	-	-	-	0.01
	-	-	(0.01)	-	-	0.01	0.02	(0.02)
Diluted income / (loss), $ per share:								
Continuing operations	-	-	(0.01)	-	-	-	0.01	0.01
Discontinued operations	-	-	-	-	-	-	-	0.01
	-	-	(0.01)	-	-	0.01	0.02	(0.02)

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

Summary of principal changes in first quarter information

In the first quarter of 2011 the Company continued its exploration campaign in respect of its petroleum properties in Kurdistan constituting the continuing operations of the Company which currently have no corresponding revenue. The net income in the first quarter was primarily driven by the cumulative foreign currency translation gain of $1,053 which has offset normal operational expenses during this period.

Results of Continuing Operations

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

General and Administrative Expenses

In $000	**For the three months ended March 31,**	
	2011	**2010**
Salaries and benefits	1,049	481
Management and consulting fees	331	168
Sponsorship expense	1	-
General and other office expenses	220	92
Listing costs and investor relations	78	4
Travel expenses	116	73
Legal, accounting and audit fees	129	112
Expenses capitalized as E&E assets	(1,760)	(711)
Total general and administrative expenses	164	219

The general increase over the comparative period of the prior year in the components of G&A expenses is due to the increase in technical and support associated with the additional exploration activity on the Company's petroleum properties relative to the same period last year. The reduction in first quarter G&A costs overall compared to the amount in the first quarter of 2010 is due to an increase in the proportionate amount of expense capitalized as exploration and evaluation ("E&E") assets.

Share-Based Payments

In $000	**For the three months ended March 31,**	
	2011	**2010**
Share-based payments	59	254

The share-based payments expense in first quarter of 2011 and 2010 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 year 2011 to date. 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	**For the three months ended March 31,**	
	2011	**2010**
Depreciation and amortization	52	26

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	For the three months ended March 31, 2011	2010
Loss from investment in GEP	79	-

The loss relates to the Company's pro-rata portion of the net loss incurred by GEP in conducting exploration operations in Kurdistan during the first quarter of 2011. The Company acquired its 33.5% interest in GEP on August 27, 2010.

Finance cost

In $000	For the three months ended March 31, 2011	2010
Guarantee fees	227	458
Total finance cost	227	458

The Company has incurred fees in respect of a guarantee of the minimum financial obligations under the Pulkhana and Arbat PSCs. The guarantee became effective on August 29, 2009 and has been provided to the KRG by a related company on behalf of ShaMaran. Refer also to the discussion under "Related Party Transactions" in this MD&A.

Finance income

In $000	For the three months ended March 31, 2011	2010
Foreign exchange gain	1,053	1,694
Interest income	109	66
Total finance income	1,162	1,760

The gain in foreign exchange in the first quarter of 2011 and 2010 results primarily from holding cash and cash equivalents denominated in Canadian dollars while the Canadian dollar strengthened during the reporting period 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 amount relative to the first quarter of the prior year is primarily due to higher interest rates received on the cash balances held during the period.

Income tax expense

In $000	For the three months ended March 31, 2011	2010
Income tax expense	41	13

Income tax expense relates to a provision for income tax on service income generated in the Swiss entity of the Company. The amount reported in the first quarter of 2011 has increased relative to the amount in the comparable period of 2010 is due to a higher tax base relating to the additional services in support of higher levels of exploration activity.

Results of Discontinued Operations

The main components of discontinued operations are explained as follows:

Expenses

In $000	For the three months ended March 31, 2011	2010
Asset retirement obligation	1	-
Management and consulting fees	13	115
Legal, accounting and audit fees	57	42
General and other office expenses	7	33
Total expenses	78	190

The decrease in total expenses relative to the first quarter of 2011 is due to the reduction in activity associated with the Company's United States based operations and follows from 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	For the three months ended March 31, 2011	2010
Interest income	-	2

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

Gain on disposal of assets from discontinued operations

In $000	For the three months ended March 31, 2011	2010
Gain on asset disposal	-	77

The Company had a gain of $77 in the first quarter of 2010 relating to the disposal of all remaining inventories located in the United States. In the year 2009 the Company realized a gain of $1,600 on the disposal of substantially all oil and gas properties located in the United States.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Outstanding Share Data

As of March 31, 2011 the Company had 623,273,860 shares outstanding and 4,418,334 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 49.1 million net of issuance costs). As a result of these share transactions subsequent to the balance sheet date the Company had 680,483,860 shares outstanding at the date of this MD&A.

Related Party Transactions

	Purchases of services Three months ended March 31, 2011	2010	Amounts owing as at March 31, 2011	March 31, 2010
Namdo Management Services Ltd.	67	56	44	1
Mile High Holdings Ltd.	31	-	31	-
McCullough O'Connor Irwin LLP	5	19	8	12
Lundin Petroleum AB	612	840	296	644
Total	**715**	**915**	**379**	**657**

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.

The Company receives services from various subsidiary companies of Lundin Petroleum AB ("Lundin"), a shareholder of the Company. Lundin charges during the first quarter of 2011 of $612 (2010: $840) were comprised of G&G and other technical service costs of $21 (2010: $72), reimbursement for Company travel and related expenses of $278 (2010: $192), office rental, administrative and building services of $84 (2010: $118) and $229 (2010: $458) 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 March 31, 2011 totaled $39,412 compared to $57,566 at March 31, 2010.

The cash position of the Company decreased by $7,424 over the first quarter of 2011 compared to a decrease in cash by $994 during the first quarter of 2010. The primary components of the movement in funds are discussed in the following paragraphs.

Net cash used in investment activities during the quarter was $8,931 compared to funds used in first quarter of 2010 in the amount of $2,955. The main components of cash used were funding the investment in GEP in the amount of $4,000 and spending on E&E costs of $5,003 related to the drilling programs on the Company's petroleum properties in Kurdistan with an offset in the amount of $109 from interest received on cash deposits.

The Company had no significant financing activities during the first quarters of 2011 and 2010. In May 2011 the Company received funds from financing related to the private placement of 56 million common shares of $CAD 49.1 million.

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 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 increased by $19 in the first quarter of 2011 (2010: $253) due to share-based payments expense and stock options exercised during the 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 premium are transferred to share capital. There were 91,666 options exercised during the period (2010: nil).

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 March 31, 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.

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 March 31, 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 approval from the KRG was pending.

Investment in GEP

As part of the acquisition of GEP the Company agreed obligation to contribute the next $15.8 million in cash which will be required to fund GEP's oil exploration and development operations. The amount of this obligation which remained at March 31, 2011 was $8.6 million.

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 in accordance with accounting principles generally accepted in Canada. In preparing financial statements, management makes informed judgments and estimates that affect the reported amounts of assets and liabilities as of the date of the financial statements and affect the reported amounts of revenues and expenses during the 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 first 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. *Exploration & Evaluation Assets:* 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, $188.4 million at March 31, 2010 and $149.9 million at December 31, 2010.

ii. *Share-based Payments:* According to *IFRS 2 Share-based payments* 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 $50 for the three months ended March 31, 2010 and $56 for the year ended December 31, 2010.

iii. *Discontinued Operations:* For the periods ended March 31, 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 $0.6 million at March 31, 2010, current liabilities held by continuing operations have been decreased by $2.8 million at January 1, 2010 and $2.7 million at March 31, 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 March 31, 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 Interim Consolidated Interim Financial Statements.

Outlook

The outlook for the four blocks in Kurdistan for the remainder of the year 2011 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. The operating company, GEP, is currently preparing a program to appraise the Atrush Block for development and production.

Pulkhana Block

Pulkhana-9 was spudded in April 2011 and is planned to be drilled to a Total Depth of 2700m. The well is designed to appraise the proven Euphrates/Jaddala & Shiranish oil reservoirs as well as appraise possible upside in the Jeribe & Lower Jaddala formations.

ShaMaran has also received Ministry of Natural Resources ("MNR") approval for the Pulkhana-10 and preparations are being made to enable drilling of this well. The Company is tendering for a workover rig for the planned third quarter workover of Pulkhana-8 and at the same time progressing with the feasibility study and design for the Pulkhana Early Production Facility ("EPF") planned to be installed by the end of the year 2011. The first 3 wells (Pulkhana 8, 9 & 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). Tendering and preparations are underway to enable drilling to commence in the 4th quarter of this year.

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. Approval from the KRG is currently pending.

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 125,000 bbls per day. 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. This is an extremely positive development for the region. Management is optimistic that further progress will be made between the regional government of Kurdistan and the federal government of Iraq on the federal oil and gas law.

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**.