SHAMARAN PETROLEUM CORP.

MANAGEMENT DISCUSSION AND ANALYSIS
For the three and six months ended June 30, 2012
(Expressed in thousands of United States Dollars unless otherwise indicated)

Management's discussion and analysis ("MD&A") of the financial and operating results of ShaMaran Petroleum Corp. ("ShaMaran" together with its subsidiaries the "Company") is prepared as of August 21, 2012. The MD&A should be read in conjunction with the unaudited condensed interim consolidated financial statements for the three and six months ended June 30, 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 thousands of US dollars ("USD").

Overview

ShaMaran is a Canadian-based oil and gas company with an indirect interest in the Atrush petroleum property located in Kurdistan in Northern Iraq ("Kurdistan"). The Company is currently in the pre-production stages of its exploration and development program relating to this petroleum property. 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 Kurdistan Regional Government of Iraq ("KRG"). The Program consists of 3D seismic and a number of appraisal wells and studies.
- The Atrush-2 appraisal well was spudded on May 23, 2012 and a total depth of 1,750 meters was reached ahead of schedule on July 10, 2012. A comprehensive well testing program is currently underway and the operator of the Atrush Block, General Exploration Partners Inc, will release the test results on the completion of the testing program.
- 3D seismic acquisition on the Atrush Block was completed on August 11, 2012. Processing of the complete 3D seismic survey is expected at the end of the current year.
- Planning is underway for a program to complete the Atrush 1 well drilled last year as a future producer. The work is scheduled for the fourth quarter of 2012.
- Tendering for the Early Well Test Facility (EWTF) for the Atrush Block is underway. The EWTF is expected to be commissioned in the first half of the year 2013.
- The Taza-1 exploration well was spudded on July 3, 2012. The well is targeting the proven regional Tertiary reservoirs of the Miocene Jeribe formation (which is confirmed as oil-bearing and highly productive, and is on trend to the Sarqala-1 well), the Miocene Euphrates formation and the Oligocene Kirkuk Group.
- On August 20, 2012 the Company announced that it had sold its entire 20% undivided participating interest in the Taza PSC, held by the fully-owned subsidiary ShaMaran Petroleum B.V., to a subsidiary of Total S.A. for the cash sum of USD 48 million plus a reimbursement of costs incurred on joint operations from April 1, 2012 until the closing date.
- 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 to fulfill all outstanding financial commitments on these two blocks. 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 unrisked 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 June 30, 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.

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.

In the six months ended June 30, 2012 preparations for the Taza-1 exploration well were almost complete and drilling operations were underway on the Atrush-2 appraisal well which spudded on May 23, 2012. By the end of the second quarter the well was drilled to a depth of 1,473 meters and was drilling ahead of schedule. Subsequent to the end of the quarter the Taza-1 well spudded on July 3, 2012. The Atrush-2 well was drilled to TD of 1,750 on July 10, 2012 and a comprehensive well testing program was commenced which is currently underway.

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 and a possible installation of an Early Production facility to conduct a long term test in the field. 3D seismic acquisition operations commenced on the block in July 2011 and were completed on August 11, 2012.

The Atrush-2 appraisal well was spudded on May 23, 2012 and by June 30, 2012 had reached 1,473 meters in the Adaiyah formation. Well TD was reached ahead of schedule on July 10, 2012. A comprehensive well testing program is currently underway and the operator of the Atrush Block, General Exploration Partners Inc, will release the test results on the completion of the testing program. Tendering for the Early Well Test Facility (EWTF) for the Atrush Block is underway. The facility is expected to be commissioned in the first half of the year 2013. Work is also underway to identify a location for the Atrush-3 well with plans to commence drilling in the first half of the year 2013.

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

Taza Block

On August 20, 2012 the Company announced that it had sold to a subsidiary of Total S.A its entire 20% undivided participating interest in the Taza PSC, held by the fully-owned subsidiary ShaMaran Petroleum B.V..

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 currently producing 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. Prior to the sale ShaMaran held a 20% working interest in the PSC, Oil Search Iraq Limited (“OSIL”), the operator, holds a 60% working interest in the PSC and 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 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 is one of the main targets for the Taza-1 exploration well. The Taza-1 well was spudded on July 3, 2012. The primary target reservoir is expected to be reached at approximately 2,850 meters during the third quarter of 2012. The well is expected to take in excess of 100 days to drill and has a planned total depth of 3,250 meters.

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							
	Jun 30 2012	**Mar 31 2012**	**Dec 31 2011**	**Sep 30 2011**	**Jun 30 2011**	**Mar 31 2011**	**Dec 31 2010**	**Sep 30 2010**
Continuing operations								
General and admin. recovery / (exp.)	(459)	(384)	(283)	202	(837)	(164)	628	(643)
Share-based payments recovery / (exp.)	(8)	2	(21)	(70)	(114)	(59)	(83)	(73)
Depreciation and amortisation	(48)	(49)	(55)	(58)	(56)	(52)	(43)	(41)
Share of recovery / (loss) of associate	(46)	(66)	11	(173)	(30)	(79)	46	(73)
Relinquishment costs	-	(25,732)	-	-	-	-	-	-
Impairment (losses) / recovery	945	(248)	(207,504)	-	-	-	-	-
Finance cost	(360)	-	(251)	(2,780)	(229)	(227)	9	(457)
Finance income	25	391	552	147	367	1,162	1,961	600
Income tax expense	(28)	(24)	(31)	(32)	(33)	(41)	(38)	(16)
Net inc. / (loss) from continuing ops.	21	(26,110)	(207,582)	(2,764)	(932)	540	2,480	(703)
Discontinued operations								
Expenses	(13)	(37)	(34)	(46)	(1,121)	(78)	(73)	(47)
Gain on sale of assets	-	-	-	-	1,078	-	-	-
Net loss from discontinued ops.	(13)	(37)	(34)	(46)	(43)	(78)	(73)	(47)
Net income / (loss)	8	(26,147)	(207,616)	(2,810)	(975)	462	2,407	(750)
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)	-	-	-	-	-

Results of Continuing Operations

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

General and Administrative Expenses

In $000	**Three months ended June 30,**		**Six months ended June 30,**	
	2012	**2011**	**2012**	**2011**
Salaries and benefits	630	864	1,427	1,913
Management and consulting fees	218	361	543	692
Sponsorship expense	-	526	-	527
General and other office expenses	136	271	353	491
Listing costs and investor relations	137	358	179	436
Travel expenses	61	106	201	222
Legal, accounting and audit fees	192	124	305	253
General and administrative expense incurred	1,374	2,610	3,008	4,534
Expenses and PSC overhead capitalized as E&E assets	(915)	(1,773)	(2,165)	(3,533)
Net general and administrative expenses	459	837	843	1,001

The Company capitalizes as exploration and evaluation (E&E) assets those general and administrative expenses incurred which relate to the operational aspects of the Company's E&E activities as well as exploration overhead charges in accordance with PSC terms on properties operated by the Company. The PSCs which govern petroleum properties in Kurdistan allow for 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 general and administrative expenses incurred and capitalized in the three and six month periods ended June 30, 2012 relative to the amounts incurred and capitalized over the comparable periods of the prior year is primarily due to the relinquishment in January 2012 of its two operated blocks, Arbat and Pulkhana, which resulted in a decrease overall in the Company's technical and support activities during the reporting periods.

Share-Based Payments

In $000	**Three months ended June 30,**		**Six months ended June 30,**	
	2012	**2011**	**2012**	**2011**
Share-based payments expense	8	114	6	173

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 six 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.

Depreciation and Amortisation

In $000	**Three months ended June 30,**		**Six months ended June 30,**	
	2012	**2011**	**2012**	**2011**
Depreciation and amortisation	48	56	97	108

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 June 30, 2012	2011	Six months ended June 30, 2012	2011
Loss from investment in associate	46	30	112	109

The loss from investment in associate 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 June 30, 2012	2011	Six months ended June 30, 2012	2011
Relinquishment fees	-	-	25,000	-
Costs to wind up Pulkhana and Arbat operations	-	-	732	-
Total relinquishment costs	-	-	25,732	-

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 three months of 2012.

Impairment losses

In $000	Three months ended June 30, 2012	2011	Six months ended June 30, 2012	2011
Write down of inventory to net realizable value	(138)	-	(451)	-
Recovery of impairment losses on E&E assets	1,100	-	1,100	-
Impairment loss / (recovery) on PP&E	(17)	-	48	-
Net recovery of impairment losses	945	-	697	-

The impairment losses on inventory is primarily due to the liquidation and restocking of certain drilling inventories which will no longer be used in drilling programs associated with the Pulkhana and Arbat Blocks due to their cancellation. The Company has released excess accrued costs which were capitalized as exploration and evaluation (E&E) assets resulting in a recovery in the current reporting periods of impairment losses previously recognized. The impairment loss / recovery on property plant and equipment ("PP&E") items during the reporting periods were due to changes in previous estimates of net realizable value which have occurred in the course of liquidating these assets which relate to the relinquished blocks.

Finance cost

In $000	Three months ended June 30, 2012	2011	Six months ended June 30, 2012	2011
Interest expense on equity based financing fee	360	-	360	-
Guarantee fees	-	229	-	456
Total finance cost	360	229	360	456

The interest expense relates to a loan entered into with two investment companies who jointly are principal shareholders of the Company. Under the terms of the loan the investment companies received an aggregate of 3,000,000 common shares of the Company issued on April 2, 2012 at $0.24 per share as an equity based financing fee. The Company has expensed the pro-rata portion of the total equity based financing incurred in the reporting periods relative to the total six month loan term.

The Company incurred fees in the first six months 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 resulting in no expense in the first six months of the year 2012.

Finance income

In $000	**Three months ended June 30,**		**Six months ended June 30,**	
	2012	**2011**	**2012**	**2011**
Interest income	1	168	25	277
Foreign exchange gain	24	199	391	1,252
Total finance income	25	367	416	1,529

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

The foreign exchange gains 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

In $000	**Three months ended June 30,**		**Six months ended June 30,**	
	2012	**2011**	**2012**	**2011**
Income tax expense	28	33	52	74

Income tax expense relates to provisions for income tax on service income generated in Switzerland which is determined on the basis of the cost of the services. The amount reported in the three and six months ended June 30, 2012 has decreased relative to the amounts reported in the comparable periods of 2011 due to less service costs 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

In $000	**Three months ended June 30,**		**Six months ended June 30,**	
	2012	**2011**	**2012**	**2011**
Legal, accounting and audit fees	2	16	30	73
Management and consulting fees	-	3	-	3
General and other office expenses	11	24	20	45
Total expenses	13	43	50	121

The decrease in fees and expenses in the first half of 2012 relative to the amounts incurred in the comparable reporting periods 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 interests in the United States.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Outstanding Share Data

The common shares of the Company outstanding at June 30, 2012 and at that date of this MD&A was 810,983,860 which is an increase from the number outstanding at January 1, 2012 by 3,000,000 common shares which were issued at CAD 0.24 per share to two related parties as an equity based financing fee in accordance with the terms of a debenture financing concluded on April 2, 2012. Refer also to the related party disclosures in the next section of this MD&A.

There were 2,648,334 stock options outstanding at June 30, 2012 under the Company's employee incentive stock option plan which is a decrease of 585,000 from the number outstanding at January 1, 2012. During the six months ended June 30, 2012 there were no stock options granted (2011: nil), 450,000 stock options expired (2011: nil), 135,000 stock options were forfeited (2011: 50,000), and no stock options were exercised (2011: 91,666). There has been no further movement in stock options from June 30, 2012 to the date of this MD&A.

The Company has no warrants outstanding.

Related Party Transactions

In $000

	Purchases of services for periods ended June 30,				Amounts owing at the reporting dates	
	Three months		Six months			
	2012	**2011**	**2012**	**2011**	**30 Jun 12**	**31 Dec 11**
Namdo Management Services Ltd.	97	109	167	176	40	7
Mile High Holdings Ltd.	-	-	-	31	-	19
McCullough O'Connor Irwin LLP	41	39	57	44	25	14
Vostok Naphta Investment Ltd.	3	3	13	3	-	-
Lundin family	360	-	360	-	10,000	-
Lundin Petroleum AB	152	723	324	1,335	56	78
Total	**653**	**874**	**921**	**1,589**	**10,121**	**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 and six months ended June 30, 2012 of $152 (2011: $723) and $324 (2011: $1,335) were comprised of G&G and other technical service costs of $68 (2011: $47) and $125 (2011: $68), reimbursement for Company travel and related expenses of $1 (2011: $331) and $1 (2011: $609), office rental, administrative and building services of $83 (2011: $116) and $198 (2011: $200), and nil (2011: $229) and nil (2011: $458) 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).

The Company received a $10 million loan from the Lundin family through two investment companies who jointly are principal shareholders of the Company (the "Lenders"). In connection with the loan the Company has issued to the Lenders an aggregate of 3,000,000 common shares of the Company. The fair value of the shares issued is being amortized as a finance cost over the six month loan period. Refer also to the discussion of debenture financing under the following section.

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

Liquidity and Capital Resources

Working capital at June 30, 2012 was negative $(6.2) million compared to $63.3 million at June 30, 2011.

The overall cash position of the Company decreased by $43.1 million during the first half of the year 2012 compared to an increase in cash of $13.3 million during the first half of 2011. The main components of the movement in funds are discussed in the following paragraphs.

The operating activities of the Company during the first six months of 2012 resulted in a decrease in the cash position by $44.4 million compared to a decrease by $2.8 million in the first six months of 2011. Payments to the KRG totaling $25 million in accordance with the terms of the agreements to relinquish the Pulkhana and Arbat Blocks as well as a decrease by $19.7 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 two quarters of 2012 was $9.1 million compared to funds used in the same period of 2011 in the amount of $44.1 million. The main components of cash used during the year to date period in 2012 was $4.7 million on the Atrush Block appraisal work program, $3.7 million on exploration costs in the Taza Block and operational and support costs of approximately $0.9 million. Proceeds of approximately $0.2 million were received in respect of sales of property plant and equipment. Subsequent to the balance sheet date the Company received a total of $51.0 million on August 17, 2012 which was comprised of the $48.0 million sale price for its entire 20% undivided participating interest in the Taza PSC plus a $3.0 million portion of the reimbursement of costs incurred on joint operations from April 1, 2012 until the closing date.

The Company received $10 million in cash from finance activities during the first half of 2012 through a debenture financing agreement entered into on April 2, 2012 with two investment companies who jointly are principal shareholders of the Company (the "Lenders"). The $10 million loan will mature and be payable six months after closing of the loan transaction (the "Maturity Date") and can be prepaid up to the Maturity Date without interest or penalty. Interest will accrue on any unpaid loan balance at 5% per annum commencing on the earlier of the Maturity Date or an event of default under the Loan, and will be payable semi-annually thereafter.

The Company does not currently generate cash flow from its oil exploration and development operations. The Company has relied upon the issuance of common shares to finance its ongoing oil exploration, development and acquisition activities. The Company has sufficient financial resources to fund its contractual commitments under the current agreed work plan. Continuing operations are dependent on discovery of economic oil and gas reserves and ultimately on the attainment of profitable operations.

The share based payments reserve increased by $6 in the first six months of 2012 (2011: decrease of $231) due to share based payments expense of $6 incurred during the period ($2011: $173). There were no stock options exercised during this period (2011: 1,301,666 options exercised at cost of $404). When options are granted the Black-Scholes option value method is used to calculate a value for the stock options. When the options are exercised the applicable amounts of share based payments are transferred from the share based payments reserve to share capital.

Commitments

Production Sharing Contracts

At June 30, 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 June 30, 2012 the outstanding contractual commitments of the Company were as follows:

	For the year ending June 30,				
	2013	**2014**	**2015**	**Thereafter**	**Total**
General Exploration Partners Inc	20,972	-	-	-	20,972
Taza Block PSC	4,417	1,667	833	-	6,917
Office and other	70	-	-	-	70
Total commitments	**25,459**	**1,667**	**833**	**-**	**27,959**

Subsequent to the balance sheet date the Company sold its entire 20% undivided participating interest in the Taza PSC.

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.

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.

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.

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 half of the year 2012 to the resources previously reported by the Company as at December 31, 2011.

Outlook

The outlook for the year 2012 is as follows:

Atrush Block

The Atrush-1 appraisal well was drilled to planned total depth of 1,750 meters after 48 days on July 10, 2012, ahead of schedule. A comprehensive well testing program which includes an open hole test of the Butmah formation and four further cased hole tests over the main reservoir section are currently in progress. Logging and well test results will be reported upon completion of testing. Following completion of operations on Atrush-2 the drilling rig will be moved to Atrush-1 for a completion workover of this well which was drilled last year. The location and timing of the Atrush-3 appraisal well will be determined once the results of the Atrush-2 are available with plans to commence drilling in the first half of the year 2013.

The 3D seismic acquisition program which will provide coverage over a total of 310 square kilometers was completed on August 11, 2012. The processing of the complete 3D seismic survey (Post Stack Time Migration) is expected at the end of the current year.

Results of tendering for the Early Well Test Facility (EWTF) will be announced in August 2012 along with an updated timetable for installation and commissioning will be announced in the third quarter of 2012. EWTF installation and implementation work is expected to commence before year end 2012 and first production is forecasted in the first half of the year 2013.

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 currently has 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. A number of major international oil companies, including Exxon, Chevron, Total and Gazprom, have acquired properties in Kurdistan over the last year. In addition, there have been a number of recent and significant discoveries in this region now undergoing appraisal and development.

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**.