



Shamaran Petroleum Corp

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For the year ended December 31, 2012

SHAMARAN PETROLEUM CORP.
MANAGEMENT DISCUSSION AND ANALYSIS
For the year ended December 31, 2012

Management's discussion and analysis ("MD&A") of the financial and operating results of ShaMaran Petroleum Corp. ("ShaMaran" together with its subsidiaries the "Company") is prepared as of March 15, 2013. The MD&A should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2012 together with the accompanying notes.

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. Unless otherwise stated herein all currency amounts indicated as "\$" in this MD&A are expressed in thousands of United States Dollars.

Overview

ShaMaran is a Canadian-based oil and gas company with a 20.1% direct interest in the Atrush petroleum property located in Kurdistan in Northern Iraq ("Kurdistan"). The Company is currently in the pre-production stages of its appraisal and development program relating to the Atrush oil discovery on this petroleum property. ShaMaran trades on the TSX Venture Exchange and the NASDAQ OMX First North Exchange (Stockholm) under the symbol "SNM".

Highlights

- The Company announced on February 4, 2013 an increase of 35% in Best Estimate 2C Contingent Resources (gross) for the Atrush Block, from 465.6 MMBOE at December 31, 2011 to 627.3 MMBOE at the end of 2012. The estimates were provided by an independent qualified resources evaluator, McDaniel & Associates Consultants Ltd., in a Detailed Property Report prepared as at December 31, 2012.
- On November 7, 2012 General Exploration Partners Inc ("GEP"), then operator of the Atrush Block and acting on behalf of the Contractor Group under the Atrush Block Production Sharing Contract, submitted to the Atrush Block Management Committee a Declaration of Commercial Discovery with effect from November 7, 2012.
- 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. Following the conclusion of the comprehensive well testing program the Company announced on September 13, 2012 that the main reservoir in Atrush-2 produced a combined flow rate from three separate cased hole tests of more than 42,200 barrels of oil per day ("bopd") and that additional oil resources were confirmed in two additional formations.
- The Company announced on August 20, 2012 that it sold its entire 20% direct interest in the Taza production sharing contract ("PSC") to a subsidiary of Total S.A. for a \$48 million purchase price 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 Kurdistan Regional Government ("KRG") in January 2012 to relinquish the 60% working interests previously held in each of the Arbat and Pulkhana 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 August 2012 the Company repaid in full the short term loan of \$10 million which had been obtained in April 2012 from two related parties.
- At December 31, 2012 the Company had a cash balance of \$41.2 million and working capital of \$29.6 million.
- On March 12, 2013 the Contractor entities to the Atrush Block PSC were notified by the KRG that it had exercised its option to acquire a 25% Government Interest in accordance with the provisions of the Atrush Block PSC.

Operations in Kurdistan

The Company holds a 20.1% direct interest in the Atrush Block petroleum property which is located in Kurdistan in the northern extension of the Zagros Folded Belt adjacent to several major oil discoveries. The area is currently undergoing a major exploration and development campaign by internationally recognised mid to large sized oil companies.

In the twelve months ended December 31, 2012 the Company completed a strategic realignment of its asset portfolio and acquired control of GEP which holds the Company's interest in the Atrush Block. In addition, significant progress was made on the appraisal and development program in the Atrush Block with a Declaration of Commercial Discovery submitted to the Atrush Block Management Committee on November 7, 2012.

In January 2012 ShaMaran signed a final binding agreement to relinquish to the KRG the 60% working interests which it then held in each of the Arbat and Pulkhana PSCs. 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 and the Company has been relieved of any further obligations under these PSCs.

The Company announced on August 20, 2012 that it had sold its entire 20% direct interest in the Taza Block to a subsidiary of Total S.A. At this time the Taza-1 exploration well had been drilled to a depth of approximately 1,650m, which was above the target reservoirs. This asset realignment has relieved the Company from the remaining work program obligations of the Pulkhana, Arbat and Taza Blocks, provided ShaMaran with a solid financial position and cash resources, and enables the Company to focus its activities and resources on the appraisal and development program now in progress on the Atrush Block.

The Atrush-2 appraisal well was drilled to total depth from May 2012 to July 2012 followed by a comprehensive well testing program. On September 13, 2012 the Company announced the results of the testing program indicating that the main reservoir produced a total flow rate of more than 42,200 bopd and that additional oil resources were confirmed in two additional formations. After the conclusion of operations on Atrush-2 the drilling rig was moved to the Atrush-1 discovery well to do a workover which was completed in November 2012. The drilling rig will now be moved to the Atrush-3 appraisal well which is expected to be spudded in March 2013.

GEP completed two principal transactions in December 2012 (the "Transactions") resulting in the December 31, 2012 sale of a 53.2% direct interest in the Atrush Block to TAQA Atrush B.V. ("TAQA"), a subsidiary of Abu Dhabi National Energy Company PJSC, and the December 31, 2012 repurchase from Aspect of the entire 66.5% shareholding interest which Aspect held in GEP. As a result of the Transactions ShaMaran Ventures B.V., a 100% owned subsidiary of the Company, became the sole remaining shareholder of GEP and the Company has therefore acquired control of GEP which then held a 26.8% direct interest in the Atrush Block. Following the March 12, 2013 exercise by the KRG of its option to acquire a 25% PSC interest the Company's interest in this PSC is 20.1%.

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. To the east is the Kalegran-operated Akri-Bijeel block which also has discoveries. 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 have demonstrated very high production rates. In addition to the proven Atrush Jurassic oil discovery the Atrush Block has additional exploration upside in the shallower Cretaceous reservoirs, a northern extension of the Atrush oil accumulation at the Jurassic level into the Swara Tika structure, and the deeper Triassic Kurra Chine "C" ("KCC").

In August 2010 the Company acquired a 33.5% shareholding in GEP which then held an 80% working interest in the Atrush Block PSC, with the remaining 20% third party interest ("TPI") being held by the KRG. In October 2010 Marathon Oil Corporation ("Marathon") was assigned the 20% TPI in the PSC. On December 31, 2012 GEP sold a 53.2% direct interest in the Atrush Block to TAQA who also assumed from GEP the operatorship of the Block, and repurchased the entire 66.5% shareholding which Aspect held in GEP, leaving the Company with a 100% shareholding interest in GEP which then held a 26.8% direct interest in the PSC. The Company's direct interest in the PSC was 20.1% after the KRG exercised its option to participate, explained in the following paragraph.

On March 12, 2013 the Contractor entities to the Atrush Block PSC were notified by the KRG that it had exercised its option to acquire a 25% Government Interest in accordance with the provisions of the Atrush Block PSC. The KRG now participates as a Contractor Entity with a 25% undivided interest in the petroleum operations and all the other rights, duties, obligations and liabilities of the Contractor in the PSC and becomes liable for its 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 over the Atrush Block in 2008. The first exploration well 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 April 3, 2011. Following notification to the KRG of a major Jurassic oil discovery on April 4, 2011 GEP submitted an Appraisal Work Program consisting of 3D seismic, appraisal wells and studies and a possible installation of an extended test facility to conduct production testing in the field.

3D seismic acquisition operations commenced on the block in July 2011 and were completed on August 11, 2012 with 3D seismic data now covering the entire Atrush block. Final processing of the complete 3D seismic survey is expected in the first quarter of 2013.

The Atrush-2 appraisal well was spudded on May 23, 2012 and drilled to a planned total depth of 1,750m in the Butmah formation ahead of schedule on July 10, 2012. The Company announced on September 13, 2012 the results of the comprehensive Atrush-2 well testing program which confirmed through three separate DSTs the Atrush-1 Jurassic oil discovery in the Barsarin-Sareglu-Alan-Mus (“BSAM”) reservoir. The combined test rate for the three BSAM DSTs, constrained by surface testing equipment, was over 42,200 bopd (approximately 27 degree API) and confirms the significant potential for production from the highly fractured BSAM reservoir. An additional two DSTs conducted on the Jurassic Adaiyah (cased hole) and Butmah (open hole) formations confirmed them to be oil bearing. GEP submitted in October 2012 to the Ministry of Natural Resources of Kurdistan an Atrush-2 Discovery Report giving notice of the additional Discovery.

In September 2012 the drilling rig was moved from the Atrush-2 well to the Atrush-1 discovery well drilled in 2011. A workover on this well was completed in November 2012.

On November 7, 2012 GEP and Marathon, collectively being the Contractor under the Atrush Block PSC, submitted to the Atrush Block Management Committee a Declaration of Commercial Discovery (“DCD”) with effect from November 7, 2012 under Clause 12.6 (a) of the PSC. The DCD was submitted together with an Appraisal Report covering the Atrush field. The Operator (TAQA) is currently in the process of preparing a Field Development Plan which will be submitted to the Atrush Block Management Committee within 180 days following the DCD.

On February 4, 2013 the Company announced an increase of 35% in Best Estimate 2C Contingent Resources for the Atrush Block, from 465.6 MMBOE at December 31, 2011 to 627.3 MMBOE at the end of 2012. The estimates were provided by an independent qualified resources evaluator, McDaniel & Associates Consultants Ltd. (“McDaniel”), in a Detailed Property Report prepared as at December 31, 2012 in accordance with standards set out in the Canadian National Instrument NI 51-101 and Canadian Oil and Gas Evaluation Handbook (“COGEH”). McDaniel estimates take into account the results of the Atrush-2 well (including the additional discovery in the Butmah formation) and remapping based on the recently acquired 3D seismic. In addition the Triassic Kurra Chine C is a new Prospective Resource for 2012 based on 3D seismic and reported results from nearby wells.

Preparation work is continuing to enable the drilling rig to move from the Atrush-1 location to the Atrush-3 appraisal well location. Construction work is almost complete to provide road access to the Atrush-3 location which is approximately 9km east of Atrush-1. Atrush-3 is expected to spud in March 2013. The Atrush-3 well is an important stepout from the previous two Atrush wells with the overall objective to establish contingent resources in the eastern part of the Atrush structure.

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 20% interest in the Taza Block PSC.

The Taza Block is a 511 square kilometer exploration area located in the south of Kurdistan immediately northeast of the Pulkhana Block.

Prior to the sale of its interest in Taza the Company held a 20% direct interest in the production sharing contract. Oil Search Iraq Limited ("OSIL"), the operator, held a 60% working interest in the PSC and the KRG held 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 Taza-1 exploration well was spudded on July 3, 2012 and by August 20, 2012, the date the Company announced the sale of its interest in Taza, the well was drilled to a depth of approximately 1,650m which was above the reservoir targets.

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% direct 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 held the remaining 20%.

Arbat Block

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

The Arbat Block 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% direct 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.

Selected annual information

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

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

	For the year ended December 31,		
	<u>2012</u>	<u>2011</u>	<u>2010</u>
Continuing operations			
General and administrative expense	(2,852)	(1,082)	(594)
Share based payments expense	(8)	(264)	(570)
Depreciation and amortisation expense	(183)	(221)	(139)
Share of income / (loss) of associate	129,000	(271)	(27)
Relinquishment costs	(25,732)	-	-
Impairment recovery / (loss)	1,814	(207,504)	-
Gain on sale of asset	1,100	-	-
Gain on fair valuation of net assets of subsidiary	102,735	-	-
Finance cost	(719)	(1,777)	(1,353)
Finance income	359	518	2,631
Income tax expense	(89)	(137)	(81)
Net income / (loss) from continuing operations	<u>205,425</u>	<u>(210,738)</u>	<u>(133)</u>
Discontinued operations			
Expenses	(61)	(1,279)	(1,037)
Gain on sale of asset	-	1,078	77
Net loss from discontinued operations	<u>(61)</u>	<u>(201)</u>	<u>(960)</u>
Net income / (loss)	<u>205,364</u>	<u>(210,939)</u>	<u>(1,093)</u>
Basic income / (loss) in \$ per share:			
Continuing operations	0.25	(0.31)	-
Discontinued operations	-	-	-
	<u>0.25</u>	<u>(0.31)</u>	<u>-</u>
Diluted income / (loss) in \$ per share:			
Continuing operations	0.25	(0.31)	-
Discontinued operations	-	-	-
	<u>0.25</u>	<u>(0.31)</u>	<u>-</u>

	As at December 31,		
	<u>2012</u>	<u>2011</u>	<u>2010</u>
Total assets	345,554	151,239	256,489
Working capital surplus	29,628	29,798	44,009
Shareholders' equity	331,376	125,259	235,518
Common shares outstanding (x 1,000)	810,984	807,894	623,182

Summary of principal changes in annual information

The Company has reported net income in 2012 of \$205 million which was primarily comprised of income from associate of \$129 million related to the sale by GEP on December 31, 2012 of a 53.2% interest in the Atrush Block and by the gain of \$103 million relating to the fair valuation as required by IFRS of GEP's net assets and liabilities acquired (together, the "Fair Value Increase") offset by \$25.7 million of relinquishment fees and other costs relating to the termination of the Pulkhana and Arbat Block PSCs in January 2012. Also during the year the Company sold the 20% direct interest which it held in the Taza Block PSC for net proceeds of \$53.3 million resulting in a net gain of \$1.1 million. The total assets reported at the end of the year 2012 have increased by \$194 million which was mainly due to recording the Fair Value Increase of \$232 million relating to the Atrush Block oil and gas assets and net cash out on other operating and investing activities of \$38 million.

Results of continuing operations

The Company's continuing operations are comprised of an exploration and development program on a petroleum property located in the Kurdistan Region of Iraq which is currently in the pre-production stages and generates no revenue. The expenses and income items of continuing operations are explained in detail as follows:

General and administrative expenses

In \$000

	For the year ended December 31,	
	2012	2011
Salaries and benefits	2,710	3,623
Management and consulting fees	885	1,459
Sponsorship expense	-	1,025
General and other office expenses	637	1,159
Listing costs and investor relations	271	643
Travel expenses	406	413
Legal, accounting and audit fees	415	300
General and administrative expense incurred	5,324	8,622
Expenses and PSC overhead capitalized as E&E assets	(2,472)	(7,540)
Net general and administrative expenses	2,852	1,082

The Company capitalizes as exploration and evaluation ("E&E") assets those general and administrative expenses incurred supporting E&E activities which relate to direct interests held in production sharing contracts 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 under the terms of the PSCs as recoverable petroleum costs to be recovered from a portion of available petroleum production. The Company has capitalized no general and administrative expenses subsequent to the sale of its interest in the Taza Block PSC in August 2012 as it held no direct interests in production sharing contracts for the remainder of the year.

The decrease in general and administrative expenses incurred and capitalized in the year ended December 31, 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 as well as the sale of Taza Block in August 2012, which resulted in a decrease overall in the Company's technical and support activities during the reporting periods.

Share based payments expense*In \$000*

	For the year ended December 31,	
	2012	2011
Share based payments expense	8	264

The share based payments expense results from the vesting of stock options granted in the years 2010 and 2011. No stock options have been granted during the year ended December 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 amortization*In \$000*

	For the year ended December 31,	
	2012	2011
Depreciation and amortisation	183	221

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 income / (loss) of associate*In \$000*

	For the year ended December 31,	
	2012	2011
Income / (loss) from investment in associate	129,000	(271)

The income from investment in associate relates to the Company's pro-rata portion of the net income of GEP in conducting petroleum operations on the Atrush Block in Kurdistan. The income of associate in the current year substantially all has resulted from a gain on the sale to TAQA on December 31, 2012 of a 53.2% interest in the Atrush Block PSC.

Relinquishment costs*In \$000*

	For the year ended December 31,	
	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 under the first exploration sub periods which were \$50 million in total prior to relinquishing the PSCs. These fees are non-recoverable and have therefore been expensed together with all costs associated with winding up operations on these blocks.

Impairment losses / (recovery)*In \$000*

	For the year ended December 31,	
	2012	2011
Write down of inventory to net realizable value	578	1,243
Impairment loss / (recovery) on E&E assets	(2,347)	205,862
Impairment loss / (recovery) on PP&E	(45)	399
Impairment loss / (recovery)	(1,814)	207,504

The write down of inventory is primarily due to the liquidation and restocking of certain drilling inventories which will no longer be used in the Pulkhana and Arbat Block drilling programs 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 assets relating to the relinquished blocks.

Gain on sale of assets*In \$000*

	For the year ended December 31,	
	2012	2011
Net proceeds on sale of asset	53,266	-
Costs of intangible assets and PP&E sold	(52,166)	-
Gain on sale of assets	1,100	-

In August 2012 the Company sold the 20% direct interest which it held in the Taza Block PSC. The net proceeds on sale of asset was comprised of \$48 million purchase price proceeds plus a reimbursement of \$5.8 million in costs incurred on the Taza block work program since April 1, 2012 less transaction related costs of \$0.5 million.

Gain on fair valuation of nets assets of subsidiary*In \$000*

	For the year ended December 31,	
	2012	2011
Fair valuation of net assets of subsidiary	102,735	-

GEP completed two principal transactions in December 2012 (the "Transactions") resulting in the December 31, 2012 sale of a 53.2% direct interest in the Atrush Block to TAQA and the December 31, 2012 repurchase from Aspect of the entire 66.5% shareholding interest which Aspect held in GEP. As a result of the Transactions ShaMaran Ventures B.V became the sole remaining shareholder of GEP and the Company has therefore acquired control of GEP.

The acquisition has been accounted for using the acquisition method in accordance with IFRS 3 which requires that the Company records the fair value on the date of acquisition of the net identifiable assets and liabilities of GEP and consolidates these amounts with the other assets and liabilities of the Company. As the acquisition date coincides with the balance sheet date there has been no incremental income or expense associated with the acquisition in the current year.

The Company has recorded a gain on the fair valuation of net assets of subsidiary in the amount of \$102.7 million which is the difference between the \$299.7 million fair value of net identifiable assets acquired and liabilities assumed and the \$197.0 million book value of investment in associate at acquisition of control.

The fair values of assets acquired and liabilities assumed in the acquisition of GEP are as follows:

In \$000

Fair value of previously held equity interest in GEP	299,680
Cash	10,137
Other current assets	117
Property, plant and equipment	163
Intangible assets - exploration and evaluation	300,523
Accounts payable and accrued expenses	(6,140)
Provisions	(120)
Deferred liability	(5,000)
Fair value of net identifiable assets acquired and liabilities assumed	299,680

Finance cost

In \$000

	For the year ended December 31,	
	2012	2011
Interest expense on equity based finance fee	719	-
Foreign exchange loss	-	862
Guarantee fees	-	915
Total finance cost	719	1,777

The interest expense on equity based finance fee 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 finance fee.

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

The Company incurred fees in 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. 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 year 2012.

Finance income

In \$000

	For the year ended December 31,	
	2012	2011
Interest income	26	518
Foreign exchange gain	333	-
Total finance income	359	518

Interest income represents bank interest earned on cash and investments in marketable securities. The decrease in the amounts reported in the year 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 gain 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.

Income tax expense*In \$000*

	For the year ended December 31,	
	2012	2011
Income tax expense	89	137

Income tax expense relates to provisions for income taxes on service income generated in Switzerland which is determined on the basis of the cost of the services. The amount reported in the year 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 undertaken in the reporting periods.

Results of discontinued operations

The main components of discontinued operations are explained as follows:

Expenses*In \$000*

	For the year ended December 31,	
	2012	2011
Legal, accounting and audit fees	32	137
General and other office expenses	29	61
Asset retirement obligation	-	1,078
Management and consulting fees	-	3
Total expenses	61	1,279

The decrease in fees and expenses in the year 2012 relative to the amounts incurred in 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.

Gain on sale of asset*In \$000*

	For the year ended December 31,	
	2012	2011
Deferred purchase price proceeds	-	1,078
Total gain on sale of asset	-	1,078

In April 2011 the Company received deferred purchase price proceeds of \$1,078 relating to the 2009 sale of an oil and gas asset located in the United States.

Selected quarterly information

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

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

	For the quarter ended							
	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31
	<u>2012</u>	<u>2012</u>	<u>2012</u>	<u>2012</u>	<u>2011</u>	<u>2011</u>	<u>2011</u>	<u>2011</u>
Continuing operations								
General and admin. (expense) / rec.	(1,497)	(512)	(459)	(384)	(283)	202	(837)	(164)
Share based payments (expense) / rec.	-	(2)	(8)	2	(21)	(70)	(114)	(59)
Depreciation and amortisation	(40)	(46)	(48)	(49)	(55)	(58)	(56)	(52)
Share of income / (loss) of associate	129,209	(97)	(46)	(66)	11	(173)	(30)	(79)
Relinquishment costs	-	-	-	(25,732)	-	-	-	-
Impairment recovery / (loss)	1,255	(138)	945	(248)	(207,504)	-	-	-
Gain on sale of asset	-	1,100	-	-	-	-	-	-
Gain on fair valuation of assets	102,735	-	-	-	-	-	-	-
Finance cost	(24)	(393)	(360)	-	(251)	(2,780)	(229)	(227)
Finance income	-	1	25	391	552	147	367	1,162
Income tax expense	(26)	(11)	(28)	(24)	(31)	(32)	(33)	(41)
Net inc. / (loss) from continuing ops.	231,612	(98)	21	(26,110)	(207,582)	(2,764)	(932)	540
Discontinued operations								
Expenses	1	(12)	(13)	(37)	(34)	(46)	(1,121)	(78)
Gain on sale of asset	-	-	-	-	-	-	1,078	-
Net loss from discontinued ops.	1	(12)	(13)	(37)	(34)	(46)	(43)	(78)
Net income / (loss)	231,613	(110)	8	(26,147)	(207,616)	(2,810)	(975)	462
Basic income / (loss) in \$ per share:								
Continuing operations	0.29	-	-	(0.03)	(0.28)	-	-	-
Discontinued operations	-	-	-	-	-	-	-	-
	0.29	-	-	(0.03)	(0.28)	-	-	-
Diluted income / (loss) in \$ per share:								
Continuing operations	0.29	-	-	(0.03)	(0.28)	-	-	-
Discontinued operations	-	-	-	-	-	-	-	-
	0.29	-	-	(0.03)	(0.28)	-	-	-

Summary of principal changes in fourth quarter information

In the fourth quarter of 2012 work on the Atrush Block development program continued and the Company acquired control of GEP. The net income in the fourth quarter was primarily driven by the sale by GEP in December 2012 of a 53.2% interest in the Atrush Block resulting in significant income from associate and by the gain on fair valuation of GEP's net assets as required by IFRS due to the acquisition by the Company of control of GEP in December 2012.

Off-balance sheet arrangements

The Company has no off-balance sheet arrangements.

Outstanding share data

The common shares of the Company outstanding at December 31, 2012 and at the date of this MD&A were 810,983,860, 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 2,623,334 stock options outstanding at December 31, 2012 under the Company's employee incentive stock option plan which is a decrease of 610,000 from the number outstanding at January 1, 2012. During the year 2012 there were no stock options granted (2011: 25,000), 450,000 stock options expired (2011: nil), 160,000 stock options were forfeited (2011: 50,000), and no stock options were exercised (2011: 1,301,666). There has been no further movement in stock options from December 31, 2012 to the date of this MD&A.

The Company has no warrants outstanding.

Related party transactions

In \$000

	Purchases of services during the year		Amounts owing at the reporting dates	
	2012	2011	2012	2011
Namdo Management Services Ltd.	314	361	28	7
Mile High Holdings Ltd.	37	103	19	19
McCullough O'Connor Irwin LLP	95	56	22	14
Vostok Naphta Investment Ltd.	26	24	-	-
Lundin family	719	-	-	-
Lundin Petroleum AB	524	2,176	75	78
Total	1,715	2,720	144	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 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 has been expensed as a finance cost. The loan was repaid in full in August 2012.

The Company receives services from various subsidiary companies of Lundin Petroleum AB ("Lundin"), a shareholder of the Company. Lundin charges during the year ended December 31, 2012 of \$524 (2011: \$2,176) were comprised of G&G and other technical service costs of \$138 (2011: \$195), reimbursement for Company travel and related expenses of \$1 (2011: \$611), office rental, administrative and building services of \$385 (2011: \$455). In the year 2011 the Company paid \$915 to Lundin relating to a guarantee provided to the KRG on behalf of the Company.

Included within general and administrative expenses for the year 2011 are contributions totaling \$1,025 made to a charitable foundation whose chairman is a major shareholder of the Company. Funds from this charity, in part, are used for community investment activity in Kurdistan. No contributions were made by the Company to this charitable foundation in the year 2012.

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

Liquidity and capital resources

Working capital at December 31, 2012 was \$29.6 million compared to \$29.8 million at December 31, 2011.

The overall cash position of the Company decreased by \$7.9 million during the year 2012 compared to a decrease in cash of \$9.6 million during the year 2011. The main components of the movement in funds are discussed in the following paragraphs.

The operating activities of the Company during the year 2012 resulted in a decrease in the cash position by \$42.9 million compared to an increase by \$10.5 million in the year 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 \$16.5 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. The remaining decrease of \$1.4 million was attributable to cash expenses from continuing operations and others movements in working capital.

Net cash inflows from investing activities during year 2012 were \$34.6 million compared to cash outflows in the amount of \$119.7 million in the year 2011. The main components of cash inflows in 2012 were net proceeds of \$53.3 million received on the sale of the Taza Block and other property plant and equipment, \$5 million cash held back from Aspect as security for potential settlement by GEP of costs owed by Aspect and a \$1.3 million reimbursement of intangible costs, and cash outflows due to spending of \$16.1 million on the Atrush Block appraisal work program, \$6.2 million on Taza Block exploration costs and \$2.9 million on operational and support costs.

The Company received \$10 million in cash from finance activities during the nine months of 2012 through an April 2012 debenture financing agreement with two investment companies who jointly are principal shareholders of the Company. The loan was repaid in full in August 2012. The investment companies received an equity based financing fee in respect of the loan which has been expensed as a finance cost and which had no effect on the cash position of the Company.

The share based payments reserve increased by \$8 in the year 2012 (2011: decrease of \$140) due to share based payments expense of \$8 incurred during the period (\$2011: \$264). 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.

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

Commitments

Production Sharing Contracts ("PSCs")

Shamaran holds 100% of the issued shares of GEP which held at December 31, 2012 a 26.8% working interest in the Atrush Block PSC, with TAQA then holding a 53.2% interest and Marathon holding the remaining 20% interest. On March 12, 2013 the KRG exercised its option to acquire a 25% interest in the PSC subsequent to which the Company holds a 20.1% direct interest in the PSC.

At December 31, 2012 GEP was responsible for 26.8% of the costs incurred in executing the exploration and development work programs on the Atrush Block.

The PSC contemplates minimum financial commitments during the first exploration sub-period and also requires the Contractor to fund certain community development, personnel, training, environmental, and technological assistance projects during the period over which the contract is in effect. All qualifying petroleum costs incurred by the Contractor shall be recovered from a portion of available petroleum production, defined under the terms of the PSC. All modifications to the PSC are subject to the approval of the KRG.

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

	As at December 31,				Total
	2013	2014	2015	Thereafter	
Atrush Block	4,767	-	-	-	4,767
Office and other	103	-	-	-	103
Total commitments	4,870	-	-	-	4,870

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, fair values of assets on acquisition of control, share-based payments, amortisation and impairment write-downs. Actual results could differ from these estimates and differences could be material.

Accounting for Oil and Gas Operations

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

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

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

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

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

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

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

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

The Company engaged McDaniel to evaluate 100% of the Company’s reserves and resource data at December 31, 2012. The conclusions of this evaluation have been presented in a Detailed Property Report which has been prepared in accordance with standards set out in the Canadian National Instrument NI 51-101 and COGEH.

The Company's crude oil and natural gas contingent resources for the Company's Atrush asset as of December 31, 2012 were estimated to be as follows:

COMPANY GROSS - CONTINGENT RESOURCES ESTIMATED

As of December 31, 2012

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

	Low Estimate (1C)	Best Estimate (2C)	High Estimate (3C)	Mean (2) Estimate
Crude Oil (Mbbbl)	78,905	122,253	191,039	130,219
Natural Gas (MMcf)	14,499	23,044	37,568	24,939
Total (Mboe)	81,321	126,093	197,301	134,375

- (1) There is no certainty that it will be commercially viable to produce any portion of the resources.
- (2) The statistical mean is provided in addition to the standard 1C, 2C and 3C resources categories.
- (3) Diluted Company Gross resources assuming a 25 percent Government back-in are based on a 20.1 percent working interest share of the property gross resources. This option was exercised by the KRG on March 12, 2013.
- (4) 6 Mcf is equivalent to 1 boe.

COMPANY GROSS - PROSPECTIVE RESOURCES ESTIMATED

As of December 31, 2012

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

	Unrisked Low Estimate	Unrisked Best Estimate	Unrisked Mean Estimate	Unrisked High Estimate	Risked (2) Mean Estimate
Crude Oil (Mbbbl)	6,009	12,103	14,057	24,393	2,910
Condensate (Mbbbl)	857	5,362	9,313	22,357	1,252
Natural Gas (MMcf)	13,179	42,857	62,190	135,123	8,450
Total (Mboe)	9,063	24,608	33,735	69,270	5,570

- (1) There is no certainty that any portion of the resources will be discovered. If discovered, there is no certainty that it will be economically viable or technically feasible to produce any portion of the resources.
- (2) These are partially risked prospective resources that have been risked for chance of discovery, but have not been risked for chance of development.
- (3) Diluted Company Gross resources assuming a 25 percent Government back-in are based on a 20.1 percent working interest share of the property gross resources. This option was exercised by the KRG on March 12, 2013.
- (4) 6 Mcf is equivalent to 1 boe.

In summary, the changes in Gross Contingent Resources for the Atrush field by category between 2011 and 2012 are (MMBOE):

	Low Estimate (1C)	Best Estimate (2C)	High Estimate (3C)	Mean Estimate
2011	55.4	93.6	163.4	103.1
2012	81.3	126.1	197.3	134.4
% change	+46%	+35%	+21%	+30%

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.

Outlook

The outlook to the end of the year 2013 is as follows:

Atrush Block

The Operator (TAQA) is currently in the process of preparing a Field Development Plan ("FDP") which is required to be submitted to the Atrush Block Management Committee within 180 days following the Declaration of Commercial Discovery, submitted on November 7, 2012. The FDP will outline the revised general forward plan for the block.

The Atrush-3 appraisal well is expected to spud during March 2013. The well is located approximately 5km east of the Atrush-2 well. The drilling rig will be moved from the Atrush-1 well site to the Atrush-3 location. The Atrush-3 well is an important stepout from the previous two Atrush wells. In particular, the well is targeting the Oil Water Contact / Free Water Level in the reservoir section.

There are plans to drill two additional wells in 2013. Technical discussions on the final location of the Atrush-4 and Atrush-5 wells are underway.

The 3D seismic acquisition program which covered the entire Atrush block and adjoining Swara Tika discovery in the Sarsang Block was completed on August 11, 2012. Final processing of the complete 3D seismic survey is expected in the first quarter of 2013. Further processing is expected during 2013 with the specific purpose on enhancing the data for the development drilling program.

New Ventures

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

Budget

The Board of Directors approved a budget for the year 2013 which includes net capital spending on the Atrush Block appraisal program and G&A support and corporate costs totaling \$30.8 million.

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.



Auditor's Report

15 March 2013

Independent Auditor's Report To the Shareholders of ShaMaran Petroleum Corp

We have audited the accompanying consolidated financial statements of ShaMaran Petroleum Corp., which comprise the consolidated balance sheet as at 31 December 2012 and 31 December 2011 and the Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity and Consolidated Statement of Cash Flows for the years ended 31 December 2012 and 31 December 2011, and the related notes including a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian Generally Accepted Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated balance sheet of ShaMaran Petroleum Corp. as at 31 December 2012 and 31 December 2011 and its financial performance and its cash flows for the years ended 31 December 2012 and 31 December 2011 in accordance with International Financial Reporting Standards.

Emphasis of matter – going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosures made in Note 2 to the financial statements concerning the Company's ability to continue as a going concern. Although the Company is confident that it will be able to raise sufficient funds, there is no assurance that financing initiatives which the company will pursue will be successful. The lack of sufficient committed funding for the next 12 months from the date of approval of the financial statements indicates the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Company was unable to continue as a going concern.

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SHAMARAN PETROLEUM CORP.
Consolidated Statement of Comprehensive Income
(Expressed in thousands of United States Dollars, except for per share data)

	Note	For the year ended December 31,	
		2012	2011
Expenses from continuing operations			
General and administrative expense	6	(2,852)	(1,082)
Share based payments expense	20	(8)	(264)
Depreciation and amortisation expense		(183)	(221)
Share of income / (loss) of associate	16	129,000	(271)
Impairment recovery / (loss)	8	1,814	(207,504)
Gain on fair valuation of net assets of subsidiary	16	102,735	-
Gain on sale of asset	9	1,100	-
Relinquishment costs	7	(25,732)	-
Income / (loss) before finance items and income tax expense		205,874	(209,342)
Finance cost	10	(719)	(1,777)
Finance income	11	359	518
Net finance loss		(360)	(1,259)
Income / (loss) before income tax expense		205,514	(210,601)
Income tax expense	12	(89)	(137)
Net income / (loss) from continuing operations		205,425	(210,738)
Discontinued operations			
Loss from discontinued operations	13	(61)	(201)
Net income / (loss) for the year		205,364	(210,939)
Other comprehensive income / (loss):			
Currency translation differences		26	(23)
Total other comprehensive income / (loss)		26	(23)
Total comprehensive income / (loss) for the year		205,390	(210,962)
Income / (loss) in dollars per share:			
Continuing operations			
Basic and diluted	19	0.25	(0.31)
Discontinued operations			
Basic and diluted		-	-
Continuing and discontinued operations			
Basic and diluted	19	0.25	(0.31)

The accompanying notes are an integral part of these consolidated financial statements.

SHAMARAN PETROLEUM CORP.
Consolidated Balance Sheet
(Expressed in thousands of United States Dollars)

	Note	As at December 31,	
		2012	2011
Assets			
Non-current assets			
Intangible assets	14	303,549	45,836
Property, plant and equipment	15	257	382
Investment in associate	16	-	51,835
		303,806	98,053
Current assets			
Other current assets		127	647
Inventories	17	198	3,328
Other receivables		204	105
Cash and cash equivalents		41,216	49,085
		41,745	53,165
Assets associated with discontinued operations	13	3	21
Total assets		345,554	151,239
Liabilities			
Current liabilities			
Accounts payable and accrued expenses	18	7,027	23,245
Current tax liabilities		90	122
Deferred liability	16	5,000	-
		12,117	23,367
Non-current liabilities			
Provisions		120	-
		120	-
Liabilities associated with discontinued operations	13	1,941	2,613
Total liabilities		14,178	25,980
Equity			
Share capital	19	534,068	533,349
Share based payments reserve		3,836	3,828
Cumulative translation adjustment		8	(18)
Accumulated deficit		(206,536)	(411,900)
Total equity		331,376	125,259
Total liabilities and equity		345,554	151,239

The accompanying notes are an integral part of these consolidated financial statements.

The financial statements were approved by the Board of Directors and authorized for issue on March 15, 2013 and signed on its behalf:

/s/Cameron Bailey
J. Cameron Bailey, Director

/s/Keith Hill
Keith C. Hill, Director

SHAMARAN PETROLEUM CORP.
Consolidated Statement of Changes in Equity
(Expressed in thousands of United States Dollars)

	Share capital	Share based payments reserve	Cumulative translation adjustment	Accumulated deficit	Total
Balance at January 1, 2011	432,506	3,968	5	(200,961)	235,518
Total comprehensive loss for the year	-	-	(23)	(210,939)	(210,962)
Transactions with owners in their capacity as as owners:					
Private placements	101,953	-	-	-	101,953
Transaction costs	(2,175)	-	-	-	(2,175)
Share based payments expense	-	264	-	-	264
Share options exercised	1,065	(404)	-	-	661
	100,843	(140)	-	-	100,703
Balance at December 31, 2011	533,349	3,828	(18)	(411,900)	125,259
Total comprehensive income for the year	-	-	26	205,364	205,390
Transactions with owners in their capacity as as owners:					
Equity based finance fee	719	-	-	-	719
Share based payments expense	-	8	-	-	8
	719	8	-	-	727
Balance at December 31, 2012	534,068	3,836	8	(206,536)	331,376

The accompanying notes are an integral part of these consolidated financial statements.

SHAMARAN PETROLEUM CORP.
Consolidated Statement of Cash Flows
(Expressed in thousands of United States Dollars)

	Note	For the year ended December 31,	
		2012	2011
Operating activities			
Net income / (loss) from continuing operations		205,425	(210,738)
Adjustments for:			
Gain on sale of asset	9	(1,100)	-
Interest income		(26)	(518)
Interest expense on equity based finance fee	10	719	-
Foreign exchange (gain) / loss	10,11	(333)	862
Depreciation and amortisation expense		183	221
Income tax		(32)	19
Impairment (recovery) / loss	8	(1,814)	207,504
Share based payments expense	20	8	264
Share of (income) / loss of associate	16	(129,000)	271
Gain on fair valuation of net assets of subsidiary	16	(102,735)	-
Capitalized expenses		-	(1,656)
Changes in trade and other receivables		(99)	19
Changes in other current assets		520	(200)
Changes in inventories		2,552	(1,915)
Changes in accounts payable and accrued expenses		(16,550)	18,089
Changes in provisions		120	-
Cash used in discontinued operations		(715)	(1,682)
Net cash (outflows to) / inflows from operating activities		(42,877)	10,540
Investing activities			
Net proceeds on sale of intangible assets		52,671	-
Purchases of intangible assets		(8,395)	(100,087)
Proceeds on reimbursement of intangible costs		1,250	-
Net proceeds on sale of property, plant and equipment		802	-
Purchases of property, plant and equipment		(595)	(735)
Investment in associate		(16,110)	(20,467)
Deferred liability	16	5,000	-
Interest received on cash deposits		26	518
Cash provided by discontinued operations		-	1,078
Net cash inflows from / (outflows to) investing activities		34,649	(119,693)
Financing activities			
Net proceeds on issuance of shares		-	100,439
Net cash inflows from financing activities		-	100,439
Effect of exchange rate changes on cash and cash equivalents		359	(885)
Change in cash and cash equivalents		(7,869)	(9,599)
Cash and cash equivalents, beginning of the year		49,085	58,684
Cash and cash equivalents, end of the year		41,216	49,085

The accompanying notes are an integral part of these consolidated financial statements.

SHAMARAN PETROLEUM CORP.
Notes to the Consolidated Financial Statements
For the year ended December 31, 2012
(Expressed in thousands of United States Dollars unless otherwise stated)

1. General Information

ShaMaran Petroleum Corp. (“ShaMaran” and together with its subsidiaries the “Company”) is incorporated under the Business Corporations Act, British Columbia, Canada. The address of the registered office is Suite 2600 Oceanic Plaza, 1066 West Hastings Street, Vancouver, British Columbia V6E 3X1. The Company’s shares trade on the TSX Venture Exchange and NASDAQ OMX First North Exchange (Stockholm) under the symbol “SNM”.

The Company is engaged in the business of oil and gas exploration and development, and is currently in the pre-production stages of an exploration and development campaign in respect of a petroleum property located in the Kurdistan Region of Iraq (“Kurdistan”).

2. Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”) and the IFRS Interpretations Committee, under the historical cost convention except for certain financial assets and financial liabilities that are recognized at fair value through profit or loss. The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company’s accounting policies.

The accounting policies applied in these consolidated financial statements are based on IFRS issued and outstanding at the date these financial statements were approved for issuance by the Board of Directors.

These consolidated financial statements have been prepared on the going concern basis which assumes that the Company will be able to realize into the foreseeable future its assets and liabilities in the normal course of business as they come due. The ability of the Company to continue as a going concern and to successfully carry out its business plan is primarily dependent upon the continued support of its shareholders, the discovery of economically recoverable reserves, the resolution of remaining political disputes in Iraq and the ability of the Company to obtain additional financing to develop reserves.

In the absence of current production revenues, the Company is currently dependent upon its existing financial resources which include \$41.2 million of cash and cash equivalents as at December 31, 2012 to satisfy its obligations and finance its exploration and evaluation program in Kurdistan. Failure to meet these exploration and evaluation commitments could put the related license interests at risk of forfeiture.

The Company believes that based on the forecasts and projections they have prepared and a number of financing initiatives which will be pursued as required the Company and its subsidiaries will have sufficient resources to satisfy its contractual obligations and commitments under the agreed work program over the next 12 months. Although the Company is confident that it will be able to raise sufficient funds there is no assurance at the date these financial statements were approved that these financing initiatives will be successful. The lack of sufficient committed funding for the next 12 months indicates a material uncertainty which may cast significant doubt over the Company’s ability to continue as a going concern. These consolidated financial statements do not include the adjustments that would result if the Company is unable to continue as a going concern.

SHAMARAN PETROLEUM CORP.
Notes to the Consolidated Financial Statements
For the year ended December 31, 2012
(Expressed in thousands of United States Dollars unless otherwise stated)

3. Significant accounting policies

(a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries, entities controlled by the Company. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. Subsidiaries are fully consolidated from the date on which control is obtained by the Company and are de-consolidated from the date that control ceases.

Intercompany balances and unrealized gains and losses on intercompany transactions are eliminated upon consolidation.

(b) Investments in associates

Associates are entities over which the Company is in a position to exert significant influence but not control or joint control. Significant influence is the power to participate in the financial and operating policy decisions of the investee but not control or jointly control those policies.

Investments in associates are accounted for using the equity method whereby investments are initially recognized at cost and subsequently adjusted by the Company's share of the associate's post acquisition profits or losses and movements in other comprehensive income. Losses of an associate in excess of the Company's interest in that associate are recognized only to the extent that the Company has incurred legal or constructive obligations to make payments on behalf of the associate.

Any excess of the cost of the acquisition over the Company's share of the fair value of the identifiable assets and liabilities of the associate at the date of acquisition is recognized as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of that investment. If the carrying value of the investment is greater than its recoverable amount the impairment loss is recognized directly in the statement of comprehensive income.

Where a group company transacts with an associate of the Company unrealized gains are eliminated to the extent of the Company's interest in the relevant associate. Unrealized losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred in which case appropriate provision for impairment is made.

The Company assesses at each year-end whether there is any objective evidence indicating that the carrying value of its interests in associates may exceed its recoverable amount. If impaired the carrying value of the Company's investment in associates is written down to its estimated recoverable amount, the higher of the fair value less cost to sell and value in use with a provision for impairment recorded in the statement of comprehensive income during the period of impairment.

(c) Interest in joint ventures

A joint venture is a contractual arrangement whereby the Company and other parties undertake an economic activity that is subject to joint control.

Where the Company undertakes its activities under joint venture arrangements directly, the Company's share of jointly controlled assets and any liabilities incurred jointly with other joint ventures are recognized in the financial statements of the relevant company and classified according to their nature.

Liabilities and expenses incurred directly in respect of interests in jointly controlled assets are accounted for on an accrual basis. Income from the sale or use of the Company's share of the output of jointly controlled assets and its share of the joint venture expenses are recognized when it is probable that the economic benefit associated with the transactions will flow to/from the Company and the amount can be reliably measured.

SHAMARAN PETROLEUM CORP.
Notes to the Consolidated Financial Statements
For the year ended December 31, 2012
(Expressed in thousands of United States Dollars unless otherwise stated)

(d) Business combinations

The acquisition method of accounting is used to account for business combinations. The consideration transferred is measured at the aggregate of the fair values at the date of acquisition of assets given, liabilities incurred or assumed, and equity instruments issued by the Company in exchange for control of the acquiree. Acquisition related costs are expensed as incurred. The identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under *IFRS 3 Business Combinations* are recognized at their fair value at the acquisition date.

If the Company acquires control of an entity in more than one transaction the related investment held by the Company immediately before the last transaction when control is acquired is considered sold and immediately repurchased at the fair value of the investment on the date of acquisition. Any difference between the fair value and the carrying amount of the investment results in income or loss recognized in the statement of comprehensive income.

(e) Non-current assets held for sale and discontinued operations

Non-current assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are measured at the lower of carrying amount and fair value less costs to sell.

The results of a component of the Company that represent a major line of business or geographical area of operations that has either been disposed of (by sale, abandonment or spin-off) or is classified as held for sale is reported as discontinued operations. The financial statements of the Company include amounts and disclosures pertaining to discontinued operations in accordance with *IFRS 5 Non-current Assets Held for Sale and Discontinued Operations*.

(f) Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of the Company's subsidiaries are measured using the currency of the primary economic environment in which the subsidiary operates (the "functional currency"). The functional and presentation currency of the Company is United States Dollars.

The results and financial position of subsidiaries that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities are translated at the closing exchange rate at the date of that balance sheet;
- Income and expenses are translated at the average exchange rate for the period in which they were incurred as a reasonable approximation of the cumulative effect of rates prevailing on transaction dates; and
- All resulting exchange differences are recognized in other comprehensive income as part of the cumulative translation reserve.

Transactions and balances

Transactions in currencies other than the functional currency are recorded in the functional currency at the exchange rates prevailing on the dates of the transactions or valuation where items are re-measured. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at the balance sheet date. Exchange differences are recognized in the statement of comprehensive income during the period in which they arise.

SHAMARAN PETROLEUM CORP.
Notes to the Consolidated Financial Statements
For the year ended December 31, 2012
(Expressed in thousands of United States Dollars unless otherwise stated)

Other property, plant and equipment

Property, plant and equipment assets excluding oil and gas assets described above are carried at cost less accumulated depreciation and any recognized impairment loss. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the assets' carrying value or recognized as a separate asset as appropriate only when it is probable that future economic benefits associated with the item will flow to the Company and the cost can be measured reliably.

Repairs and maintenance costs are charged to the statement of comprehensive income during the period in which they are incurred.

The carrying amount of an item of PP&E is derecognized on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the statement of comprehensive income during the period.

Depreciation and amortisation is provided to expense the cost of the PP&E assets on a straight-line basis over their estimated useful lives on the followed bases:

- Furniture, fixtures and office equipment over 5 years
- Computer and information technology assets over 3 years

(i) Impairment of non-financial assets

E&E assets and oil and gas assets are assessed for impairment when facts and circumstances suggest that the carrying amount may exceed its recoverable amount. Such indicators include:

- the period for which the Company has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed.
- substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned.
- exploration for and evaluation of resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the Company has decided to discontinue such activities in the specific area.
- sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the E&E asset is unlikely to be recovered in full from successful development or by sale.
- extended decreases in prices or margins for oil and gas commodities or products.
- a significant downwards revision in estimated volumes or an upward revision in future development costs.

For the purpose of impairment testing the assets are aggregated into cash generating unit ("CGU") cost pools based on their ability to generate largely independent cash flows. The recoverable amount of a CGU is the greater of its fair value less costs to sell and its value in use. Fair value is determined to be the amount for which the asset could be sold in an arm's length transaction.

Fair value less costs to sell may be determined using discounted future net cash flows of proved and probable reserves using forecast prices and costs. Value in use is determined by estimating the present value of the future net cash flows expected to be derived from the continued use of the asset or CGU.

Where conditions giving rise to the impairment subsequently reverse the effect of the impairment charge is also reversed as a credit to the statement of comprehensive income net of any depreciation that would have been charged since the impairment.

(j) Revenue recognition

Revenues from the sale of hydrocarbons are recognized when title passes to an external party and collection is reasonably assured which is normally upon delivery of products and customer acceptance.

SHAMARAN PETROLEUM CORP.
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Interest income is accrued on a time proportion basis by reference to the principal outstanding and at the effective interest rate applicable.

(k) Taxation

The income tax expense comprises current income tax and deferred income tax.

The current income tax is the expected tax payable on the taxable income for the period. It is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date and includes any adjustment to tax payable in respect of previous years.

Deferred income tax is the tax recognized in respect of temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases and is accounted for using the balance sheet liability method. Deferred income tax liabilities are generally recognized for all taxable temporary differences and deferred income tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Deferred income tax is not recorded if it arises from the initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither the accounting profit nor loss.

Deferred income tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries and associates and interests in joint ventures except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred income tax is calculated at the tax rates that are expected to apply in the year when the deferred tax liability is settled or the asset is realized. Deferred tax is charged or credited in the statement of comprehensive income except when it relates to items charged or credited directly to equity in which case the deferred tax is also recognized directly in equity. Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

(l) Inventories

Inventories of drilling equipment and consumable materials, which normally include casing, tubing, downhole tools and wellhead equipment, which have not been charged to exploration and evaluation assets for a particular project, are stated at the lower of cost or net realizable value and determined on a first-in, first-out ("FIFO") method. Net realizable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

(m) Financial instruments

Financial assets and liabilities are recognized in the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the contractual rights to cash flows from the assets expire or the Company transfers the financial asset and substantially all the risks and rewards of ownership. The Company derecognizes financial liabilities when the Company's obligations are discharged, cancelled or expire.

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

SHAMARAN PETROLEUM CORP.
Notes to the Consolidated Financial Statements
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Classification and measurement

The Company classifies its financial assets and liabilities at initial recognition in the following categories:

- Financial assets and liabilities at fair value through profit or loss are those assets and liabilities acquired principally for the purpose of selling or repurchasing in the short-term and are recognized at fair value. Transaction costs are expensed in the statement of comprehensive income and gains or losses arising from changes in fair value are also presented in the statement of comprehensive income within other gains and losses in the period in which they arise. Financial assets and liabilities at fair value through profit or loss are classified as current except for the portion expected to be realized or paid beyond twelve months of the balance sheet date, which is classified as non-current.
- Available-for-sale investments are non-derivative financial instruments that are designated in this category or not classified in any other category. They usually comprise marketable securities and investments in debt and equity securities. Available-for-sale investments are initially recognized and subsequently measured at fair value. Gains and losses arising from changes in the fair value are recognized in other comprehensive income. Available-for-sale investments are classified as non-current unless the investment matures within the next twelve months or management expects to dispose of them within twelve months. Interest on available-for-sale investments is calculated using the effective interest method and is recognized in the statement of comprehensive income within finance income. Dividends on available-for-sale equity instruments are recognized in the statement of comprehensive income as other gains and losses when the Company's right to receive payment is established. When an available-for-sale investment is sold or impaired the accumulated gains or losses are moved from accumulated other comprehensive income to the statement of comprehensive income within other gains and losses.
- Loans and receivables comprise of trade receivables and cash and cash equivalents and are financial assets with fixed or determinable payments that are not quoted on an active market and are generally included within current assets due to their short-term nature. Loans and receivables are initially recognized at fair value and are subsequently measured at amortized cost using the effective interest method less any provision for impairment.
- Financial liabilities at amortized cost comprise of trade and other payables and are initially recognized at the fair value of the amount expected to be paid and are subsequently measured at amortized cost using the effective interest rate method. Financial liabilities are classified as current liabilities unless the Company has an unconditional right to defer settlement for at least 12 months after the balance sheet date.

Impairment of financial assets

At each reporting date the Company assesses whether there is objective evidence indicating that a financial asset is impaired including:

- Significant financial difficulty of the issuer.
- A breach of contract such as delinquency in interest or principal payments.
- Active market for that financial asset disappears because of financial difficulties.
- Observable data indicating that there is a measureable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets.

If evidence of impairment exists the Company recognizes an impairment loss in the statement of comprehensive income as follows:

- Financial assets carried at amortized cost - the impairment loss is the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows discounted using the instrument's effective interest rate.

SHAMARAN PETROLEUM CORP.
Notes to the Consolidated Financial Statements
For the year ended December 31, 2012
(Expressed in thousands of United States Dollars unless otherwise stated)

- Available for sale financial assets – the impairment loss is the difference between the original cost of the asset and its fair value at the measurement date less any impairment losses previously recognized in the statement of comprehensive income.

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized. Impairment losses on available-for-sale equity investments are not reversed.

(n) Cash and cash equivalents

Cash and cash equivalents are comprised of cash on hand and demand deposits and other short-term liquid investments that are readily convertible to a known amount of cash with three months or less maturity.

(o) Provisions

Provisions are recognized when the Company has a present obligation, legal or constructive, as a result of a past event when it is probable that the Company will be required to settle the obligation and a reliable estimate can be made of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flow estimates to settle the present obligation its carrying amount is the present value of those cash flows.

Decommissioning and site restoration

Provisions for decommissioning and site restoration are recognized when the Company has a present legal or constructive obligation to dismantle and remove production, storage and transportation facilities and to carry out site restoration work. The provision is calculated as the net present value of the Company's share of the expenditure expected to be incurred at the end of the producing life of each field using a discount rate that reflects the market assessment of the time value of money at that date. Unwinding of the discount on the provision is charged to the statement of comprehensive income within finance costs during the period. The amount recognized as the provision is included as part of the cost of the relevant asset and is charged to the statement of comprehensive income in accordance with the Company's policy for depreciation and amortisation.

Changes in the estimated timing of decommissioning and site restoration cost estimates are dealt with prospectively by recording an adjustment to the provision and a corresponding adjustment to the relevant asset.

(p) Share-based payments

The Company issues equity-settled share-based payments to certain directors, employees and third parties. The fair value of the equity settled share-based payments is measured at the date of grant and is expensed using the graded method of amortisation over the period in which the recipients become fully entitled to the equity instrument (the "vesting period"). The cumulative expense recognized for equity-settled share-based payments at each balance sheet date represents the Company's best estimate of the number of equity instruments that will ultimately vest. The charge or credit for the period and the corresponding adjustment to contributed surplus during the period represents the movement in the cumulative expense recognized for all equity instruments expected to vest. The fair value of equity-settled share-based payments is determined using the Black-Scholes option pricing model.

(q) Pension obligations

Pensions are the most common long-term employee benefit. The pension schemes are funded through payments to insurance companies. The Company's pension obligations consist of defined contribution plans. A defined contribution plan is a pension plan under which the Company pays fixed contributions. The Company has no further payment obligations once the contributions have been paid. The contributions are recognized as an expense when they are due.

SHAMARAN PETROLEUM CORP.
Notes to the Consolidated Financial Statements
For the year ended December 31, 2012
(Expressed in thousands of United States Dollars unless otherwise stated)

(r) Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issue of new shares or share options are shown in equity as a deduction, net of tax, from the proceeds.

(s) Accounting standards issued but not yet applied

IFRS 7: Financial Instruments: Disclosures – In 2011 IASB issued amendments to IFRS 7 Financial Instruments: Disclosures relating to disclosure requirements for the offsetting of financial assets and liabilities when offsetting is permitted under IFRS. The disclosure amendments are required to be adopted retrospectively for periods beginning January 1, 2013.

IFRS 9: Financial Instruments: Classification and Measurement – In 2011 the IASB issued an amended version of IFRS 9 which provides additional guidance to classification and measurement of the Company's financial assets, but will not have an impact on classification and measurements of financial liabilities. Due to the amendment in 2011, this standard is now required to be adopted for periods beginning January 1, 2015.

IFRS 10: Consolidated Financial Statements – In 2011 the IASB issued IFRS 10 which provides additional guidance to determine whether an investee should be consolidated. The guidance applies to all investees, including special purpose entities. The standard is required to be adopted for periods beginning January 1, 2013.

IFRS 11: Joint Arrangements – In 2011 the IASB issued IFRS 11 which presents a new model for determining whether an entity should account for joint arrangements using proportionate consolidation or the equity method. An entity will have to follow the substance rather than legal form of a joint arrangement and will no longer have a choice of accounting method. The standard is required to be adopted for periods beginning January 1, 2013.

IFRS 12: Disclosure of Interests in Other Entities – In 2011 the IASB issued IFRS 12 which aggregates and amends disclosure requirements included within other standards. The standard requires a company to provide disclosures about subsidiaries, joint arrangements, associates and unconsolidated structured entities. The standard is required to be adopted for periods beginning January 1, 2013.

Amendments to IFRS 10, 11 and 12 on Transition Guidance – In 2012 the IASB issued clarification that the date of initial application is the first day of the annual period in which IFRS 10 is adopted. Entities adopting IFRS 10 should assess control at the date of initial application; the treatment of comparative figures depends on this assessment. The amendment also requires certain comparative disclosures under IFRS 12 upon transition. The amendment is effective for annual periods beginning on or after January 1, 2013, consistent with IFRS 10, 11 and 12.

IFRS 13: Fair Value Measurement – In 2011 the IASB issued IFRS 13 to provide comprehensive guidance for instances where IFRS requires fair value to be used. The standard provides guidance on determining fair value and requires disclosures about those measurements. The standard is required to be adopted for periods beginning January 1, 2013.

IAS 27: Separate Financial Statements – The IASB issued amendments to IAS 27 Separate Financial Statements to coincide with the changes made in IFRS 10, but retains the current guidance for separate financial statements.

IAS 28: Investments in Associates and Joint Ventures – The IASB issued amendments to IAS 28 Investments in Associates and Joint Ventures to coincide with the changes made in IFRS 10 and IFRS 11.

IAS 32: Offsetting Financial Assets and Financial Liabilities – In 2011 the IASB issued amendments to IAS 32 clarifying the meaning of "currently has a legal enforceable right to set-off" and the application of the IAS 32 offsetting criteria to settlement systems which apply gross settlement mechanisms that are not simultaneous. These amendments are required to be adopted for periods beginning January 1, 2014.

The Company is currently assessing the impact, if any, that the adoption of these standards will have on its financial statements.

SHAMARAN PETROLEUM CORP.
Notes to the Consolidated Financial Statements
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4. Critical accounting judgments and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in note 3, management has made judgments, estimates and assumptions about the carrying amounts of the assets, liabilities, revenues, expenses and related disclosures. These estimates and associated assumptions are based on historical experience, current trends, and other factors that management believes to be relevant at the time these consolidated financial statements were prepared. Actual results may differ as future events and their effects cannot be determined with certainty and such differences could be material. Management reviews the accounting policies, underlying assumptions, estimates and judgments on an on-going basis to ensure that the financial statements are presented fairly in accordance with IFRS.

The following are the critical judgments and estimates that management has made in the process of applying the Company's accounting policies in these consolidated financial statements:

(a) Oil and gas reserves

The business of the Company is the exploration and development of oil and gas reserves in Kurdistan. Estimates of commercial oil and gas reserves are used in the calculations for impairment, depreciation and amortisation and decommissioning provisions. Changes in estimates of oil and gas reserves resulting in different future production profiles will affect the discounted cash flows used for impairment purposes, the anticipated date of site decommissioning and restoration, and the depreciation charges based on the unit of production method.

In February 2013 the Company commissioned an independent reserves and resources report from McDaniel & Associates to estimate the Company's reserves and resources at December 31, 2012. The reserves and resources estimates provided in the report were used in the calculations for impairment, depreciation and amortisation and decommissioning provisions within these consolidated financial statements.

(b) Impairment of E&E and PP&E assets

IAS 36 Impairment of Assets and *IFRS 6 Exploration of and Evaluation of Mineral Resources* require that a review for impairment be carried out if events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The recoverable amounts are determined with reference to value in use calculations. The key assumptions for the value in use calculations are those regarding production flow rates, discount rates, and fiscal terms under the Production Sharing Contracts governing the Company's assets and expected changes to selling prices and direct costs during the period. These assumptions reflect management's best estimates based on historical experiences, past practices and expectations of future changes in the oil and gas industry.

(c) Decommissioning and site restoration provisions

The Company recognizes a provision for decommissioning and site restoration costs expected to be incurred in order to remove and dismantle production, storage and transportation facilities and to carry out site restoration work. The provisions are estimated taking into consideration existing technology and current prices after adjusting for expected inflation and discounted using rates reflecting current market assessments of the time value of money and where appropriate, the risks specific to the liability. The Company makes an estimate based on its experience and historical data. Refer also to note 13.

(d) Share-based payments

The Company issues equity-settled share-based payments to certain directors, employees and third parties. In accordance with *IFRS 2 Share-based payments*, in determining the fair value of options granted, the Company has applied the Black-Scholes model and as a result makes assumptions for the expected volatility, expected life, risk-free rate, behavioral considerations and expected dividend yield. The fair value of options granted at December 31, 2012 is shown in note 20.

SHAMARAN PETROLEUM CORP.
Notes to the Consolidated Financial Statements
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(e) Fair valuation of net assets of subsidiary acquired

IFRS 3 Business Combinations requires the Company to record the fair value of the net assets and liabilities of General Exploration Partners Inc (“GEP”) on December 31, 2012, which is the date the Company acquired control of GEP. In determining the fair value the Company has considered a number of bases including the consideration exchanged on December 31, 2013, available prices of comparable assets, the net present value of estimated cash flows associated with the net assets and the asset value imputed by the public markets valuation, and relied on a number of assumptions and estimates including future oil prices, productive capacity of the oil and gas asset, costs to develop the oil and gas asset, relevant discount rates, and the probability of future taxes associated with the asset.

5. Business and geographical segments

The Company operates in one business segment, the exploration and development of oil and gas assets, in one geographical segment, the Kurdistan Region of Iraq. As a result, in accordance with *IFRS 8 Operating Segments*, the Company has presented its financial information collectively for one operating segment. Refer to note 13 for disclosure of the Company’s discontinued operations.

6. General and administrative expenses

	For the year ended December 31,	
	2012	2011
General and administrative expenses incurred	5,324	8,622
General and administrative expenses capitalized as E&E assets	(2,472)	(7,540)
General and administrative expense	2,852	1,082

The Company capitalizes as E&E assets those general and administrative expenses supporting E&E activities which relate to direct interests held in production sharing contracts. The Company has capitalized no general and administrative expenses subsequent to the sale of its interest in the Taza Block PSC in August 2012 as it held no direct interests in production sharing contracts for the remainder of the year. Refer also to notes 9 and 14.

7. Relinquishment costs

	For the year ended December 31,	
	2012	2011
Relinquishment fees	25,000	-
Costs to windup Pulkhana and Arbat operations	732	-
Total relinquishment costs	25,732	-

On January 17, 2012 the Company signed agreements with the KRG to relinquish the Pulkhana and Arbat Block PSCs. On January 25, 2012 the Company paid a total of \$25 million to the KRG in accordance with the terms of the agreements relieving the Company of all further obligations under the PSCs including its remaining minimum financial commitments. Refer also to note 14.

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8. Impairment (recovery) / loss

	For the year ended December 31,	
	2012	2011
Write down drilling inventory to net realizable value	578	1,243
Impairment (recovery) / loss on exploration and evaluation assets	(2,347)	205,862
Impairment (recovery) / loss on property, plant and equipment	(45)	399
Impairment (recovery) / loss	(1,814)	207,504

The above indicated losses and recoveries relate to the Pulkhana and Arbat production sharing contract relinquishments. The Company has released excess accrued costs which were capitalized as exploration and evaluation (E&E) assets resulting in a recovery in the current year of impairment losses previously recognized. Refer also to notes 14, 15 and 17.

9. Gain on sale of asset

In August 2012 the Company sold the 20% direct interest which it held in the Taza Block PSC. The gain on the sale of the Taza Block asset has been determined as follows:

	For the year ended December 31,	
	2012	2011
Net proceeds on sale of asset	53,266	-
Costs of intangible assets and property, plant and equipment sold	(52,166)	-
Gain on sale of asset	1,100	-

The net proceeds on sale of asset was comprised of a \$48 million purchase price plus reimbursement of \$5.8 million in costs incurred on the Taza Block work program since April 1, 2012 less transaction related costs of \$0.5 million. Refer also to notes 14 and 15.

10. Finance cost

	For the year ended December 31,	
	2012	2011
Interest expense associated with equity based finance fee	719	-
Foreign exchange loss	-	862
Guarantee fees	-	915
Total finance costs	719	1,777

The interest expense relates to a loan entered into with two investment companies who jointly are principal shareholders of the Company and represents the amortization of prepaid interest over the loan term. Refer also to note 23.

For the year ended December 31, 2011 the foreign exchange loss of \$862 resulted primarily from holding cash and cash equivalents denominated in Canadian dollars while the Canadian dollar weakened during the reporting year against the United States dollar which is the reporting currency of the Company.

The guarantee fees related to a guarantee of the minimum financial obligations under the Pulkhana and Arbat PSCs which was provided to the KRG by a related company on behalf of the Company. As a result of having relinquished the Pulkhana and Arbat Blocks the guarantee is no longer required by the Company.

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11. Finance income

	For the year ended December 31,	
	2012	2011
Interest income	26	518
Foreign exchange gain	333	-
Total finance income	359	518

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

For the year ended December 31, 2012 the foreign exchange gain of \$333 results primarily from holding cash and cash equivalents denominated in Canadian dollars while the Canadian dollar strengthened during the year against the United States dollar which is the reporting currency of the Company.

12. Taxation

(a) Income tax expense

The income tax expense reflects an effective tax rate which differs from Federal and Provincial statutory tax rates. The main differences are as follows:

	For the year ended December 31,	
	2012	2011
Income / (loss) from continuing operations before income tax	205,514	(210,601)
Corporate income tax rate	25.0%	26.5%
Computed income tax expense / (recovery)	51,379	(55,809)
Increase / (decrease) resulting from:		
Non-taxable foreign exchange (gain) / loss	(83)	228
Share issuance costs charged to share capital	(180)	(583)
Non-deductible compensation expense	2	70
Foreign tax rate differences	(5,247)	13,474
Effect of change in tax rates	27	54
Unrealized gain on fair valuation of assets	(25,684)	-
Change in valuation allowance	(20,545)	42,064
Effect of changes in foreign exchange rates	(160)	110
Other	580	529
Income tax expense from continuing operations	89	137

The Company's income tax expense relates to a provision for income tax on service income generated in Switzerland, and is calculated at the effective tax rate of 25% prevailing in this jurisdiction.

The components of the future income tax assets are as follows:

	As at December 31,	
	2012	2011
Non-capital losses	83,952	104,218
Share issue costs carried forward	815	1,098
Properties-tax basis over carrying value	1,279	1,279
Exploration expenses	809	784
Future income tax assets before allowance	86,855	107,379
Valuation allowance	(86,855)	(107,379)
Future income tax assets	-	-

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(b) Tax losses carried forward

The Company has tax losses and costs which are available to apply to future taxable income as follows:

	As at December 31,	
	2012	2011
Canadian losses from operations	17,834	15,948
Canadian exploration expenses	3,234	3,134
Canadian unamortized share issue costs	3,259	4,199
Dutch losses from operations	103,345	207,138
U.S. Federal losses from operations	168,069	168,008
U.S. Federal tax basis in excess of carrying values of properties	3,654	3,654
Total tax losses carried forward	299,395	402,081

The Canadian losses from operations may be used to offset future Canadian taxable income and will expire over the period from 2017 to 2032. The Canadian exploration expenses may be carried forward indefinitely to offset future taxable Canadian income. Canadian unamortized share issue costs may offset future taxable Canadian income of years 2013 to 2016. The U.S. Federal losses are available to offset future taxable income in the United States through 2032.

13. Discontinued operations

During May of 2009 the Company sold to a third party substantially all of its oil and gas properties located in the United States in the Gulf of Mexico. The results of the discontinued operations included in the consolidated statement of comprehensive income are as follows:

	For the year ended December 31,	
	2012	2011
Expenses		
General and administrative, other	61	201
Revision to asset retirement obligation provision	-	1,078
Operating loss	61	1,279
Gain on disposal of assets	-	1,078
Net loss attributable to discontinued operations	61	201

The major classes of assets and liabilities included in the consolidated balance sheet are as follows:

	As at December 31,	
	2012	2011
Assets		
Prepaid expenses	3	21
	3	21
Liabilities		
Trade payables and accrued expenses	355	539
Asset retirement obligation provision	1,586	2,074
	1,941	2,613
Net liabilities	1,938	2,592

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

14. Intangible assets

	Exploration and evaluation assets	Other intangible assets	Total
At January 1, 2011			
Cost	149,692	270	149,962
Accumulated amortisation	-	(70)	(70)
Net book value	149,692	200	149,892
For the year ended December 31, 2011			
Opening net book value	149,692	200	149,892
Additions	101,894	1	101,895
Amortisation expense	-	(97)	(97)
Impairment losses	(205,861)	-	(205,861)
Exchange differences	-	7	7
Net book value	45,725	111	45,836
At December 31, 2011			
Cost	251,586	271	251,857
Accumulated amortisation	-	(160)	(160)
Impairment losses	(205,861)	-	(205,861)
Net book value	45,725	111	45,836
For the year ended December 31, 2012			
Opening net book value	45,725	111	45,836
Additions including fair value adjustment	307,022	3	307,025
Disposal	(51,571)	(1)	(51,572)
Amortisation expense	-	(88)	(88)
Adjustment to impairment losses	2,347	-	2,347
Net adjustment on currency translation	-	1	1
Net book value	303,523	26	303,549
At December 31, 2012			
Cost	507,037	280	507,317
Accumulated amortization	-	(254)	(254)
Impairment losses	(203,514)	-	(203,514)
Net book value	303,523	26	303,549

In December 2011 the Company took the decision to relinquish to the KRG the Pulkhana and Arbat Block PSCs and immediately suspend all operations associated with those two production sharing contracts. The Company has recorded impairment losses to expense all exploration and evaluation assets, which includes acquisition costs, capacity building payments to the KRG, costs of acquiring seismic data, and drilling and testing costs which have been incurred by the Company on these two Blocks up to December 31, 2011. The relinquishment was completed on January 17, 2012. Refer also to notes 7 and 8.

The Company revised an estimate of costs relating to the Pulkhana Block which were reported as impairment losses in the previous year resulting in a \$2.3 million adjustment to impairment losses in the current year.

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In August 2012 the Company sold its 20% direct interest in the Taza Block resulting in the disposal of \$51.6 million in related intangible assets. Refer also to note 9.

On December 31, 2012 the Company acquired control of General Exploration Partners Inc resulting in the addition of \$300.5 million of exploration and evaluation assets relating to the Atrush Block PSC. Refer also to note 16.

The net book value of exploration and evaluation assets at December 31, 2012 relates directly to the Atrush Block in the amount of \$300.5 million (2011: \$nil. The interest in the Atrush Block was previously held through the investment in associate) and an amount of \$3.0 million (2011: \$4.8 million) of other costs associated with ongoing operations in Kurdistan.

Other intangible assets comprise computer software licenses. The amortisation charge is presented as part of general and administrative expenses within the Company's consolidated statement of comprehensive income.

15. Property, plant and equipment

	Oil and gas equipment	Computer equipment	Furniture and office equipment	Total
At January 1, 2011				
Cost	-	203	217	420
Accumulated depreciation	-	(66)	(24)	(90)
Net book value	-	137	193	330
For the year ended December 31, 2011				
Opening net book value	-	137	193	330
Additions	678	36	13	727
Disposals	(171)	(7)	(19)	(197)
Depreciation expense	(160)	(78)	(46)	(284)
Impairment losses	(174)	(17)	(10)	(201)
Exchange differences	-	5	2	7
Net book value	173	76	133	382
At December 31, 2011				
Cost	445	232	203	880
Accumulated depreciation	(98)	(139)	(60)	(296)
Impairment losses	(174)	(17)	(10)	(201)
Net book value	173	76	133	382
For the year ended December 31, 2012				
Opening net book value	173	76	133	382
Additions	758	-	-	758
Disposals	(781)	(9)	(14)	(804)
Depreciation expense	(31)	(62)	(32)	(125)
Impairment recovery / (losses)	46	4	(6)	44
Exchange differences	-	-	2	2
Net book value	165	9	83	257
At December 31, 2012				
Cost	199	199	165	563
Accumulated depreciation	(29)	(190)	(82)	(301)
Impairment losses	(5)	-	-	(5)
Net book value	165	9	83	257

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As a result of the relinquishment of the Pulkhana and Arbat PSCs the Company has determined that there is impairment in value of certain property plant and equipment employed in the exploration operations associated with these production sharing contracts and has recorded impairment losses on these assets. Refer also to note 8.

In August 2012 the Company sold its 20% direct interest in the Taza Block PSC resulting in the disposal of \$0.6 million in related property, plant and equipment. Refer also to note 9.

The impairment provision remaining at year end reflects the impairment losses incurred during the year less the book value of those impaired assets disposed of during the year.

16. Acquisition of General Exploration Partners Inc.

General Exploration Partners Inc. ("GEP") completed two principal transactions in December 2012 (the "Transactions") resulting in the December 31, 2012 sale of a 53.2% participating interest in the Atrush Block to Abu Dhabi National Energy Company PJSC ("TAQA") and the December 31, 2012 repurchase from Aspect Energy International, LLC ("Aspect") of the entire 66.5% shareholding interest which Aspect held in GEP. As a result of the Transactions ShaMaran Ventures B.V., a wholly owned subsidiary of ShaMaran, became the sole remaining shareholder of GEP and the Company has therefore acquired control of GEP.

The Company has recorded a deferred liability relating to funds held in trust in the amount of \$5 million which will be paid to Aspect on June 30, 2013 in respect of the repurchase of Aspect shares subject to the satisfactory conclusion of certain closing conditions.

The acquisition has been accounted for using the acquisition method in accordance with IFRS 3 which requires that the Company records the fair value on the date of acquisition of the net identifiable assets and liabilities of GEP and consolidates these amounts with the other assets and liabilities of the Company. As the acquisition date coincides with the balance sheet date there has been no incremental income or expense associated with the acquisition in the current year. Had the Company acquired GEP on January 1, 2012 no material difference would have resulted in the amount of consolidated income and expenses. The acquisition costs to the Company associated with the Transactions were not material.

The Company has recorded a gain on the fair valuation of net assets of subsidiary in the amount of \$102.7 million which is the difference between the \$299.7 million fair value of net identifiable assets acquired and liabilities assumed and the \$197.0 million book value of investment in associate at acquisition of control.

The fair values of assets acquired and liabilities assumed in the acquisition of GEP are as follows:

Fair value of previously held equity interest in GEP	299,680
Cash	10,137
Other current assets	117
Property, plant and equipment	163
Intangible assets - exploration and evaluation	300,523
Accounts payable and accrued expenses	(6,140)
Provisions	(120)
Deferred liability	(5,000)
Fair value of net identifiable assets acquired and liabilities assumed	299,680

Refer also to notes 14 and 15.

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Prior to acquisition of control the Company held 33.5% of the fully diluted share capital of GEP and accounted for this interest as investment in associate, included in the balance sheet as follows:

	As at December 31,	
	2012	2011
Cash contributions	63,937	47,827
Common share contributions	5,000	5,000
Acquisition costs	204	204
Share of income / (losses) since acquisition	128,702	(298)
Recovery of costs from partner	(898)	(898)
Book value of investment in associate	196,945	51,835
Book value of investment in associate transferred at acquisition of control	(196,945)	-
Total investment in associate	-	51,835

The share of income / (loss) from associate included in the statement of comprehensive income is as follows:

	For the year ended December 31,	
	2012	2011
Total income / (loss) of associate	385,076	(809)
Company's 33.5% share of income / (loss) of associate	129,000	(271)

The income of associate in the current year substantially relates to the sale of a 53.2% interest in the Atrush Block PSC.

17. Inventories

	As at December 31,	
	2012	2011
Drilling and downhole equipment	497	4,570
Impairment losses	(299)	(1,242)
Total inventories	198	3,328

The impairment in the value of certain inventory items relates to the termination of the drilling programs in the Pulkhana and Arbat Blocks. Refer also to note 8.

18. Accounts payable and accrued expenses

	As at December 31,	
	2012	2011
Trade accounts payable	811	17,409
Accrued expenses	5,494	4,379
Net payables to joint venture partners	722	1,457
Total accounts payable and accrued expenses	7,027	23,245

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19. Share capital

The Company is authorized to issue an unlimited number of common shares with no par value. The Company's issued share capital is as follows:

	Number of shares	\$000
Balance at January 1, 2011	623,182,194	432,506
Private placements, net of issuance costs	183,500,000	99,778
Share options exercised	1,301,666	1,065
Balance at December 31, 2011	807,983,860	533,349
Shares issued as equity based financing fee	3,000,000	719
Balance at December 31, 2012	810,983,860	534,068

Refer also to note 10.

Earnings per share

The earnings per share amounts were as follows:

	For the year ended December 31,	
	2012	2011
Continuing operations:		
Net income / (loss) from continuing operations, in dollars	205,421,406	(210,738,707)
Weighted average common shares outstanding during the year	810,221,565	677,001,536
Basic and diluted earnings / (loss) per share from continuing operations, in dollars	0.25	(0.31)
Discontinued operations:		
Net loss from discontinued operations, in dollars	(61,300)	(201,189)
Weighted average common shares outstanding during the year	810,221,565	677,001,536
Basic and diluted loss per share from discontinued operations, in dollars	-	-
Continuing and discontinued operations:		
Net income / (loss) from continuing and discontinued operations, in dollars	205,360,106	(210,939,896)
Weighted average common shares outstanding during the year	810,221,565	677,001,536
Basic and diluted earnings / (loss) per share from continuing and discontinued operations, in dollars	0.25	(0.31)

20. Share based payments expense

The Company has an established share purchase option plan whereby a committee of the Company's board of directors may, from time to time, grant up to a total of 10% of the issued share capital to directors, officers, employees or consultants. The number of shares under option at any specific time to any one option holder shall not exceed 5% of the issued and outstanding common shares of the Company. The term of any options granted under the plan will be fixed by the Board of Directors and may not exceed five years from the date of grant. A four month hold period may be imposed by the stock exchange from the date of grant. Vesting terms are at the discretion of the Board of Directors. All issued share options have terms of three to five years and vest over periods of up to three years. The exercise prices reflect trading values of the Company's shares at grant date.

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Movements in the Company's share options outstanding are explained as follows:

	Number of share options	Weighted average exercise price CAD
Outstanding at January 1, 2011	4,560,000	0.65
Granted	25,000	0.80
Exercised	(1,301,666)	0.49
Forfeited	(50,000)	0.43
Outstanding at December 31, 2011	3,233,334	0.72
Expired	(450,000)	1.52
Forfeited	(160,000)	0.67
Outstanding at December 31, 2012	2,623,334	0.59
Share options exercisable:		
At December 31, 2011	2,803,335	0.75
At December 31, 2012	2,615,001	0.59

The Company recognizes compensation expense on share options granted to both employees and non-employees using the fair value method at the date of grant, which the Company records as an expense. The share based payments expense is calculated using the Black-Scholes option pricing model.

The weighted average fair value of options granted and the assumptions used in their determination are as follows:

	For the year ended December 31,	
	2012	2011
Expected dividend yield	0%	0%
Risk-free interest rate (weighted average)	3.20%	3.20%
Expected share price volatility (weighted average)	86.94%	86.94%
Expected option life in years (weighted average)	4.12	4.12
Grant date fair value (weighted average)	CAD 0.53	CAD 0.53

Share based payments expense for the year ended December 31, 2012 was \$8 (2011: \$264)

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore the existing models do not necessarily provide a reliable single measure of the fair value of the Company's share options.

21. Commitments

Atrush Block Production Sharing Contract ("PSC")

ShaMaran holds 100% of the issued shares of General Exploration Partners Inc ("GEP") which held on December 31, 2012 a 26.8% direct interest in the Atrush Block PSC. TAQA Atrush B.V., a subsidiary of Abu Dhabi National Energy Company PJSC, held a 53.2% interest and Marathon Oil KDV B.V. held the remaining 20% interest with the KRG then holding an option to acquire up to a 25% interest in the PSC prior to 180 days after declaration of a commercial discovery. On March 12, 2013 the Contractor entities to the PSC were notified by the KRG that it had exercised its option to acquire a 25% interest in the PSC. Subsequent to the exercise of the option by the KRG the Company holds a 20.1% direct interest in the PSC.

At December 31, 2012 GEP was responsible for 26.8% of the costs incurred in executing the exploration and development work programs on the Atrush Block.

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The PSC contemplates minimum financial commitments during the first exploration sub-period and also requires the Contractor to fund certain community development, personnel, training, environmental, and technological assistance projects during the period over which the contract is in effect. All qualifying petroleum costs incurred by the Contractor shall be recovered from a portion of available petroleum production, defined under the terms of the PSC. All modifications to the PSC are subject to the approval of the KRG.

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

	As at December 31,				Total
	2013	2014	2015	Thereafter	
Atrush Block	4,767	-	-	-	4,767
Office and other	103	-	-	-	103
Total commitments	4,870	-	-	-	4,870

22. Financial instruments

Financial assets

The financial assets of the Company on the balance sheet dates are as follows:

	Cash, loans and receivables	
	2012	2011
Other receivables	204	105
Other current assets, excluding prepaid expense	-	68
Cash and cash equivalents	41,216	49,085
Total financial assets	41,420	49,258

Financial assets classified as loans and receivables are initially recognized at fair value and are subsequently measured at amortized cost using the effective interest method less any provision for impairment.

Financial assets classified as available-for sale are recognized at fair value with gains and losses arising from changes in fair value recognized in other comprehensive income.

The carrying amount of the Company's financial assets approximates their fair value and none of which are past due.

Financial liabilities

The financial liabilities of the Company on the balance sheet dates are as follows:

	Note	2012	2011
Accounts payable and accrued expenses	18	7,027	23,245
Deferred liability		5,000	-
Financial liabilities associated with discontinued operations	13	1,941	2,613
Current tax liabilities		90	122
Long term liabilities		120	-
Total financial liabilities		14,178	25,980

Financial liabilities are initially recognized at the fair value of the amount expected to be paid and are subsequently measured at amortized cost using the effective interest rate method.

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Capital risk management

The Company manages its capital to ensure that entities within the Company will be able to continue as a going concern, while maximizing return to shareholders. The Company is not exposed to externally imposed capital requirements. The capital structure of the Company consists of cash and cash equivalents and equity, comprising issued share capital, reserves and retained earnings as disclosed in the consolidated statement of changes in equity. The Company has no debt at December 31, 2012 (2011: \$nil).

Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, basis of measurement and the basis on which income and expenses are recognized in respect of each class of financial assets and liability are disclosed in note 3.

Financial risk management objectives

The Company's management monitors and manages the Company's exposure to financial risks facing the operations. These financial risks include market risk (including commodity price, foreign currency and interest rate risks), credit risk and liquidity risk.

The Company does not presently hedge against these risks as the benefits of entering into such agreements is not considered to be significant enough as to outweigh the significant cost and administrative burden associated with such hedging contracts.

Commodity price risk

The prices that the Company receives for its oil and gas production may have a significant impact on the Company's revenues and cash flows provided by operations. World prices for oil and gas are characterized by significant fluctuations that are determined by the global balance of supply and demand and worldwide political developments and in particular the price received for the Company's oil and gas production in Kurdistan is dependent upon the Kurdistan government and its ability to export production outside of Iraq. A significant decline in the price at which the Company can sell future oil and gas production could adversely affect the amount of funds available for capital reinvestment purposes as well as the Company's value in use calculations for impairment test purposes.

The Company does not hedge against commodity price risk, however given that the Company is in the exploration and development stage, it is not exposed to significant commodity price risk.

Foreign currency risk management

The Company maintains a portion of its cash and cash equivalents in Canadian dollars; however, the Company's operations are conducted predominantly in United States dollars. As a result, the Company is exposed to foreign currency risk due to exchange rate fluctuations between the Canadian dollar ("CAD") and the reporting currency of the Company, the United States dollar ("USD").

In addition, Company entities undertake certain transactions denominated in foreign currencies, being any currency other than the functional currency of the Company entity.

The Company has elected not to hedge its exposure to the risk of changes in foreign currency exchange rates.

The carrying amounts of the Company's principal monetary assets and liabilities denominated in foreign currency at the reporting date are as follows:

	Assets		Liabilities	
	2012	2011	2012	2011
Canadian dollars in thousands ("CAD 000")	168	42,165	274	618
Swiss francs in thousands ("CHF 000")	268	685	279	346

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Foreign currency sensitivity analysis

The Company is exposed to movements in CAD against the USD, the presentational currency of the Company. In 2011, funds were raised through the issuance of equity instruments in CAD and are held in CAD until they are required to fund operations at which time they are converted into USD. Sensitivity analyses have been performed to indicate how the profit or loss would have been affected by changes in the exchange rates between the USD and CAD. The analysis below is based on a strengthening of the USD by 1% against the USD in which the Company has significant assets and liabilities at the end of respective period. A movement of 1% reflects a reasonably possible sensitivity when compared to historical movements over a three to five year timeframe. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjust their translation at the period end for a 1% change in foreign currency rates.

A positive number in the table below indicates an increase in profit where USD weakens 1% against the CAD on the basis of the CAD assets and liabilities held by the Company at the balance sheet dates. For a 1% strengthening of the USD against the CAD there would be an equal and opposite impact on the profit or loss.

	Assets		Liabilities	
	2012	2011	2012	2011
Statement of comprehensive income	2	408	(3)	(6)

Interest rate risk management

The Company earns interest income at variable rates on its cash and cash equivalents and is therefore exposed to interest rate risk due to a fluctuation in short-term interest rates.

The Company's policy on interest rate management is to maintain a certain amount of funds in the form of cash and cash equivalents for short-term liabilities and to have the remainder held on relatively short-term deposits.

Interest rate sensitivity analysis:

Based on exposure to the interest rates for cash and cash equivalents at the balance sheet date a 0.5% increase or decrease would not have a material impact on the Company's profit or loss for the year. A rate of 0.5% is used as it represents management's assessment of the reasonably possible changes in interest rates.

Credit risk management

Credit risk is the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company is primarily exposed to credit risk on its cash and cash equivalents and trade and other receivables. Trade and other receivables are primarily with 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.

The Company manages credit risk by monitoring counterparty ratings and credit limits and by maintaining excess cash and cash equivalents 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.

The carrying amounts of the Company's financial assets recorded in the consolidated financial statements represent the Company's maximum exposure to credit risk.

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Liquidity risk management

Liquidity risk is the risk that the Company will have difficulties meeting its financial obligations as they become due. In common with many oil and gas exploration companies, the Company raises financing for its exploration and appraisal activities in discrete tranches in order to finance its activities for limited periods. The Company seeks to raise additional funding as and when required. The Company anticipates making substantial capital expenditures in the future for the acquisition, exploration, development and production of oil and gas reserves and as the Company's project moves into the development stage, specific financing, including the possibility of debt, may be required to enable future development to take place. The financial results of the Company will impact its access to the capital markets necessary to undertake or complete future drilling and development programs. There can be no assurance that debt or equity financing, or future cash generated by operations, would be available or sufficient to meet these requirements or, if debt or equity financing is available, that it will be on terms acceptable to the Company.

The Company manages liquidity risk by maintaining adequate cash reserves and by continuously monitoring forecast and actual cash flows. Annual capital expenditure budgets are prepared, which are regularly monitored and updated as considered necessary. In addition, the Company requires authorizations for expenditure on both operating and non-operating projects to further manage capital expenditures.

The maturity profile of the Company's financial liabilities are indicated by their classification in the consolidated balance sheet as "current" or "non-current", and further information relevant to the Company's liquidity position is disclosed in the Company's going concern assessment in note 2.

23. Related party transactions

Transactions with corporate entities

	Purchases of services during the year		Amounts owing at the reporting dates	
	2012	2011	2012	2011
Namdo Management Services Ltd.	314	361	28	7
Mile High Holdings Ltd.	37	103	19	19
McCullough O'Connor Irwin LLP	95	56	22	14
Vostok Naphta Investment Ltd.	26	24	-	-
Lundin family	719	-	-	-
Lundin Petroleum AB	524	2,176	75	78
Total	1,715	2,720	144	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.

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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 has been expensed as a finance cost. The loan was repaid in full in August 2012. Refer also to notes 10 and 19.

The Company receives services from various subsidiary companies of Lundin Petroleum AB ("Lundin"), a shareholder of the Company. Lundin charges during the year ended December 31, 2012 of \$524 (2011: \$2,176) were comprised of G&G and other technical service costs of \$138 (2011: \$195), reimbursement for Company travel and related expenses of \$1 (2011: \$611), office rental, administrative and building services of \$385 (2011: \$455). In the year 2011 the Company paid \$915 to Lundin relating to a guarantee provided to the KRG on behalf of the Company.

Included within general and administrative expenses for the year 2011 are contributions totaling \$1,025 made to a charitable foundation whose chairman is a major shareholder of the Company. Funds from this charity, in part, are used for community investment activity in Kurdistan. No contributions were made by the Company to this charitable foundation in the year 2012.

Key management compensation

The Company's key management was comprised of its five directors and two executive officers consisting of seven individuals who have been remunerated as follows:

	For the year ended December 31,	
	2012	2011
Management's salaries	774	787
Management's short-term benefits	156	203
Management's share based payments	12	105
Directors' fees	130	131
Directors' share based payments	-	40
Total	1,072	1,265

Short-term employee benefits include non-equity incentive plan compensation and other short-term benefits. Share-based payments compensation represents the portion of the Company's share based payments expense incurred during the year attributable to the key management, accounted for in accordance with IFRS 2 'Share Based Payments'.

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.

SHAMARAN PETROLEUM CORP.

DIRECTORS
<p>Keith C. Hill Director, Chairman Vancouver, British Columbia</p>
<p>Pradeep Kabra Director, President & Chief Executive Officer Geneva, Switzerland</p>
<p>Brian D. Edgar Director Vancouver, British Columbia</p>
<p>Gary S. Guidry Director Calgary, Alberta</p>
<p>Alexandre Schneider Director Anieres, Switzerland</p>
<p>J. Cameron Bailey Director Calgary, Alberta</p>
OFFICERS
<p>Brenden Johnstone Chief Financial Officer Geneva, Switzerland</p>
<p>Kevin E. Hisko Corporate Secretary Vancouver, British Columbia</p>

CORPORATE INFORMATION
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<p>BANKER HSBC Bank Canada Vancouver, British Columbia</p>
<p>INDEPENDENT AUDITORS PricewaterhouseCoopers LLP London, UK</p>
<p>TRANSFER AGENT Computershare Trust Company of Canada Vancouver, British Columbia</p>
<p>STOCK EXCHANGE LISTINGS TSX Venture Exchange and NASDAQ OMX First North Exchange Trading Symbol: SNM</p>
<p>INVESTOR RELATIONS Sophia Shane Vancouver, British Columbia</p>