SHAMARAN
petroleum corp

(Formerly Bayou Bend Petroleum Ltd.)

CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2009 and 2008

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AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of ShaMaran Petroleum Corp. (formerly Bayou Bend Petroleum Ltd.) as at December 31, 2009 and 2008 and the consolidated statements of operations and deficit, other comprehensive income (loss) and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP (signed)

Chartered Accountants

Vancouver, Canada
March 26, 2010

SHAMARAN PETROLEUM CORP.

Consolidated Balance Sheets

Expressed in Thousands of United States Dollars

	As at December 31	
	2009	**2008** [1]
ASSETS		
Current assets		
Cash and cash equivalents	$ 63,565	$ 45,282
Short-term investments	79	79
Accounts receivable	566	1,912
Prepaid expenses and other assets	609	1,546
	64,819	48,819
Property, plant & equipment (note 6)	185,180	-
Property, plant & equipment - held for sale	-	14,775
	$ 249,999	$ 63,594
LIABILITIES		
Current liabilities		
Accounts payable and accrued expenses	$ 3,866	$ 5,636
Net payables to joint venture partners	37	231
Income taxes payable (note 11)	12	-
Asset retirement obligation (note 10)	1,001	1,357
	4,916	7,224
Non-current liabilities		
Asset retirement obligation (note 10)	350	1,904
Other long term liabilities	170	-
	520	1,904
	5,436	9,128
SHAREHOLDERS' EQUITY		
Share capital (note 8a)	379,673	250,899
Shares to be issued (note 9)	61,349	-
Contributed surplus (note 8a)	3,360	3,024
Accumulated other comprehensive income (note 5)	4	3,282
Deficit	(199,823)	(202,739)
	244,563	54,466
	$ 249,999	$ 63,594

Nature of operations (note 1)
Commitments (note 15)

See accompanying notes to the consolidated financial statements.

[1] Restated - see note 2 to the consolidated financial statements.

SHAMARAN PETROLEUM CORP.

Consolidated Statements of Operations and Deficit

Expressed in Thousands of United States Dollars except Per Share Amounts

	For the year ended December 31	
	2009	**2008** [1]
Costs and Expenses		
Exploration	$ 636	$ -
Depletion, depreciation and amortization	6	-
General and administrative	2,378	469
Stock-based compensation (note 8b)	546	801
Foreign exchange (gain) loss	(4,943)	5,010
	(1,377)	6,280
Other income		
Interest income	310	986
Net income (loss) before income taxes	1,687	(5,294)
Income tax expense (note 11)	12	-
Net income (loss) from continuing operations	1,675	(5,294)
Discontinued operations		
Loss from operations (note 4)	(359)	(92,756)
Gain on asset disposals (note 4)	1,600	-
	1,241	(92,756)
Net income (loss)	2,916	(98,050)
Deficit, beginning of year	(202,739)	(104,689)
Deficit, end of year	$ (199,823)	$ (202,739)
Basic income (loss) per share:		
Continuing operations	$ 0.005	$ (0.02)
Discontinued operations	0.005	(0.30)
	$ 0.01	$ (0.32)
Diluted income (loss) per share:		
Continuing operations	$ 0.005	$ (0.02)
Discontinued operations	0.005	(0.30)
	$ 0.01	$ (0.32)
Weighted average number of common shares:		
Basic	346,639	308,745
Diluted	346,639	308,745

See accompanying notes to the consolidated financial statements.

[1] Restated - see note 2 to the consolidated financial statements.

SHAMARAN PETROLEUM CORP.
Consolidated Statements of Other Comprehensive Income
Expressed in Thousands of United States Dollars

	For the year ended December 31	
	2009	**2008**
Net income (loss)	$ 2,916	$ (98,050)
Other comprehensive income:		
Exchange gains arising from translation of financial statements of foreign operation	4	-
Comprehensive income (loss)	$ 2,920	$ (98,050)

See accompanying notes to the consolidated financial statements.

SHAMARAN PETROLEUM CORP.

Consolidated Statements of Cash Flows

Expressed in Thousands of United States Dollars

	For the year ended December 31	
	2009	**2008 [1]**
Operating activities of continuing operations		
Net income (loss) from continuing operations	$ 1,675	$ (5,294)
Adjustments for non-cash items:		
Depletion, depreciation and amortization	6	-
Stock-based compensation	546	801
Changes in working capital:		
Accounts receivable	(31)	-
Prepaid expenses	(358)	-
Accounts payable and accrued expenses	1,850	2
Advances from joint venture partners	(126)	-
Income taxes payable	12	-
	3,574	(4,491)
Financing activities of continuing operations		
Proceeds net of costs on issuance of shares	96,598	50
	96,598	50
Investing activities of continuing operations		
Property, plant & equipment	(91,230)	-
	(91,230)	-
Effect of exchange rate changes on cash and cash equivalents	4	-
Cash flows from (used in) continuing operations	8,946	(4,441)
Cash flows from (used in) discontinued operations (note 4)	9,337	(8,852)
Change in cash and cash equivalents	18,283	(13,293)
Cash and cash equivalents - beginning of year	45,282	58,575
Cash and cash equivalents - end of year	$ 63,565	$ 45,282
Supplemental disclosures of non-cash financing and investing activities:		
Acquisition of interests in petroleum properties through the issuance of common stock	$ 93,314	$ -
Interest received	334	2,056
Extinguishment of ARO liability on disposal of related assets	2,348	-
	$ 95,996	$ 2,056

See accompanying notes to the consolidated financial statements.

[1] Restated - see note 2 to the consolidated financial statements.

1. NATURE OF OPERATIONS

ShaMaran Petroleum Corp. (the “Company” and formerly Bayou Bend Petroleum Ltd.) is incorporated under the British Columbia Business Corporations Act.

On May 28, 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 (see note 4).

On October 16, 2009, the Company changed its name to ShaMaran Petroleum Corp. from Bayou Bend Petroleum Ltd. with an effective date of October 21, 2009. The Company’s shares trade on the TSX Venture Exchange under the new symbol of “SNM” (formerly “BBP”).

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 petroleum properties located in the Kurdistan Region of Iraq. The Company conducts its operations through wholly owned subsidiary entities.

Oil and gas operations are subject to extensive controls and regulations imposed by various levels of government that may be amended from time to time. The Company’s operations may require licenses and permits from various governmental authorities in the countries in which it operates. Under the production sharing contracts the Company has entered into, the Kurdish Regional Government is required to assist in obtaining all permits and licenses from any government agencies in the Kurdistan Region and from any other government administration in Iraq. There can be no assurance that the Company will be able to obtain all necessary licenses and permits that may be required to carry out exploration and development of its projects.

The political and security situation in Iraq is not settled. Issues relating to federalism and the autonomy of the various regions of Iraq could adversely impact the Company’s interest in the Kurdistan Region, including the ability to export any hydrocarbons as a result of our activities.

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 contract interests could have a material adverse effect on the Company’s business, prospects and results of operations.

Since inception and typical of exploration and development companies, the Company has incurred losses from operations and negative cash flows from operating activities, and has an accumulated deficit at December 31, 2009. The ability of the Company 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 Corporation to obtain financing to develop reserves.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of Presentation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries.

These consolidated financial statements are prepared in accordance with generally accepted accounting principles in Canada. The significant accounting policies followed by the Company have been applied consistently in the preparation of these consolidated financial statements. These accounting policies are summarized below.

b) Cash and Cash Equivalents

The Company considers cash and cash equivalents to include amounts held in banks and highly liquid investments with remaining maturities at point of purchase of 90 days or less. The Company places its excess cash and cash equivalents with institutions of high-credit worthiness.

c) Short-term investments

Investments are accounted for at fair market value and consist of securities backed by the full credit of the United States Government with maturities of less than one year.

d) Property Plant and Equipment (PP&E)

i. Petroleum Properties

The Company uses the successful efforts method to account for its oil and gas exploration and development costs. Exploration well costs are initially capitalized and, if subsequently determined to have not found sufficient reserves to justify commercial production, are charged to dry hole expense. Exploration well costs that have found sufficient reserves to justify commercial production, but those 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 or related project.

Producing properties and significant unproved properties are assessed annually, or more frequently as economic events dictate, for potential impairment. Any impairment loss is the difference between the carrying value of the asset and its fair value. Fair value is calculated as the present value of estimated expected future cash flows from proved, probable and, as appropriate, possible reserves.

The Company engages independent engineers in order to determine the extent to which it has reserves.

The Company is currently engaged in exploration operations in Kurdistan, as described in note 6. The Company has no reserves to form the basis for an estimate of future net cash flow from the corresponding petroleum properties. The Company has considered the conditions in CICA Accounting Guideline 11 for impairment which includes significant unfavorable economic, legal, regulatory, environmental, political and other factors. In addition, the Company's continued execution of its business plan is a key factor considered as part of the assessment of the recoverability of the carrying amount of the properties. Whenever events or changes in circumstances indicate that the carrying amount of a property in the development stage may be impaired, capitalized costs are written down to the estimated recoverable amount. As at December 31, 2009, $184,953,000 has been capitalized to date related to this project. No revenues have been generated from this project to date and no impairment was identified at December 31, 2009.

ii. Corporate PP&E

Corporate PP&E includes office equipment, furniture and other assets not used directly in petroleum operations, which are stated at historical cost less accumulated depreciation.

iii. Depreciation, Depletion and Amortization (DD&A)

Capitalized costs of proved oil and gas properties are depleted using the unit of production method. For purposes of these calculations, production and reserves of oil are converted to cubic feet of natural gas on an energy equivalent basis at a ratio of one barrel (bbl) of oil to six thousand cubic feet (mcf) of natural gas.

Successful exploratory wells and development costs are depleted over proved developed reserves. However, to the extent significant development costs are incurred in connection with proved undeveloped reserves, such costs are excluded from depletion until the reserves are developed. Acquired resource properties with proved reserves are depleted over proved reserves. Acquisition costs of probable reserves are not depleted or amortized while under active evaluation for commercial reserves. Costs are transferred to depletable costs as proved reserves are recognized. Costs associated with significant development projects are not depleted until commercial production commences.

Corporate PP&E are depreciated using the straight-line method at annual rates of 20% to 25%.

e) Asset Retirement Obligations

The fair value of the statutory, contractual or legal liability associated with the retirement and reclamation of oil and gas properties is recorded when incurred, with a corresponding increase to the carrying amount of the related petroleum properties. The increase to capitalized costs is depleted to earnings on a unit of production basis over the life of the proved reserves for each property. Subsequent changes in the estimated fair value of the asset retirement obligation (ARO) are capitalized and depleted over the remaining useful life of the underlying petroleum properties.

ARO liabilities are carried at their discounted present value and are accreted over time for the change in their present value. Actual expenditures incurred are charged against the accumulated obligation.

f) Revenue Recognition

Revenues from the sale of petroleum and natural gas are recorded when title passes to an external party and collection is reasonably assured.

g) Income Taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method current income taxes are recognized for the estimated income taxes payable for the current year. Future income taxes are recognized for temporary differences between the tax and accounting basis of assets and liabilities and for the benefit of losses available to be carried forward for tax purposes that are likely to be realized.

Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of future tax assets and liabilities of a change in tax rates is recognized in income in the period that included the date of enactment or substantive enactment.

h) Stock-Based Compensation

All stock-based awards made to employees and non-employees are measured and recognized using a fair value based method. Accordingly, the fair value of the options at the date of the grant is determined and charged to operations, with the offsetting credit to contributed surplus, on a straight-line basis over the vesting period. If and when the stock options are ultimately exercised, the applicable amounts of contributed surplus are transferred to share capital.

i) Loss per Share

Basic earnings per share is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding during the year. The computation of diluted earnings per share assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on earnings per share. The dilutive effect of outstanding options and warrants and their equivalents is reflected in diluted earnings per share by application of the treasury stock method. The treasury stock method assumes that the proceeds received from the exercise of in-the-money stock options are used to repurchase common shares at the average market price for the reporting period.

j) Joint Interests

Substantially all of the Company’s exploration and development activities are conducted jointly with others. Accordingly, the financial statements reflect only the Company’s proportionate interest in such activities.

k) Use of Estimates

The preparation of consolidated financial statements in accordance with Canadian GAAP requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates are subject to measurement uncertainty. Actual results could differ from and affect the results reported in these consolidated financial statements.

In the accounting for oil and gas interests, amounts recorded for depletion and amounts used for impairment test calculations are based on estimates of oil and gas reserves and future cash flows, including development costs. By their nature, the estimates of reserves and the related future cash flows are subject to measurement uncertainty and the impact on the consolidated financial statements of future periods could be material.

l) Foreign Currency Translation

Activities denominated in currencies other than the U.S. dollar are translated using the temporal method. Under this method, monetary assets and liabilities denominated in other currencies are translated into U.S. dollars at the exchange rate in effect at the balance sheet date. Non-monetary assets and liabilities denominated in other currencies are translated at rates in effect on the dates the assets were acquired or liabilities were assumed. Revenues and expenses are translated at rates approximating exchange rates in effect at the time of the transactions. Gains and losses on translation are reflected in the Statement of Operations and Deficit.

The accounts of the Company's self-sustaining foreign operations are translated into U.S. dollars using the current rate method. Assets and liabilities are translated at the exchange rate in effect at the balance sheet date and revenue and expenses are translated at exchange rates which approximate those prevailing at the transaction dates. Gains or losses arising from the translation of the financial statements of the self-sustaining foreign operations are deferred in the accumulated other comprehensive income account in shareholders' equity.

m) Certain prior year information has been reclassified to conform with the current year's presentation.

n) New Accounting Standards

(i) Financial instruments:

Effective for fiscal years ending on or after September 30, 2009, the Company has adopted the enhanced disclosure requirements of amended CICA Section 3862, Financial Instruments - Disclosures. Refer to note 13 for fair value measurement disclosures using a fair value hierarchy that reflects the significance of the inputs in making the measurements.

(ii) Goodwill and intangible assets:

On January 1, 2009, the Company adopted the new requirements of the CICA Handbook Section 3064, Goodwill and Intangible Assets. This new accounting standard, which applies to fiscal years beginning on or after October 1, 2008, replaces Section 3062, Goodwill and Other Intangible Assets. Section 3064 expands on the standards for recognition, measurement, and disclosure of goodwill and intangible assets. The adoption of this new standard did not have any impact on the Company's financial statements, disclosures, or results of operations.

(iii) Credit risk and the fair value of financial assets and liabilities:

On January 23, 2009, the CICA Emerging Issues Committee (EIC) issued EIC-173, Credit Risk and the Fair Value of Financial Assets and Liabilities. EIC-173 is effective for interim and annual financial statements ending on or after January 20, 2009. EIC-173 provides guidance which requires that an entity consider its own credit risk and the credit risk of counterparties when determining the fair value of financial assets and liabilities. Adoption of this guidance is to be applied retrospectively without restatement to prior periods. The Company has evaluated the impact of this new standard and concluded that it does not have a material impact on its financial statements.

3. FUTURE ACCOUNTING STANDARDS

a) International Financial Reporting Standards

In February 2008, the Canadian Accounting Standards Board confirmed that Canadian generally accepted accounting principles (Canadian GAAP) will be converged with International Financial Reporting Standards (IFRS) for fiscal years commencing January 1, 2011. The transition from Canadian GAAP to IFRS will be applicable for the Company for the first quarter of 2011 when the Company will prepare both the current and comparative financial information using IFRS. While IFRS uses a conceptual framework similar to Canadian GAAP, there are significant differences on recognition, measurement and disclosures. While the effects of IFRS have not yet been fully determined, the Company has identified a number of key areas which are likely to be impacted by changes in accounting policy and disclosures, including the accounting for petroleum properties and taxation.

b) Business Combinations

The CICA recently issued Handbook Section 1582, Business Combinations, which replaces Handbook Section 1581, Business Combinations, and establishes revised standards for the recognition, measurement, presentation and disclosure of business acquisitions. This new standard will become effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. The Company has determined that adoption of this standard will not have an impact on the Company's financial statements.

c) Consolidated Financial Statements and Non-Controlling Interests

The CICA recently issued Handbook Section 1601, Consolidated Financial Statements, and Handbook Section 1602, Non-Controlling Interests. These new sections will replace Handbook Section 1600, Consolidated Financial Statements, and establishes new guidance in respect of accounting for non-controlling interests in a subsidiary and for the preparation of consolidated financial statements. These new sections apply to interim and annual consolidated financial statements for years beginning on or after January 1, 2011. The Company has determined that adoption of these sections will not have an impact on the Company's financial statements.

Expressed in United States Dollars Unless Otherwise Noted
(Tabular Amounts in Thousands, except Share and Per Share Amounts)

4. DISCONTINUED OPERATIONS

On May 28, 2009, the Company sold to a third party substantially all of its petroleum properties located in the United States in the Gulf of Mexico. The sale of these properties, including corresponding asset retirement obligations, was for $12,487,000 in cash. Not included in the purchase price is a deferred payment of up to $8,000,000, which is contingent based on proved reserves as defined at December 31, 2010. The sale resulted in a gain of $1,600,000 reported in the consolidated statement of operations and deficit.

The results of discontinued operations in the Consolidated Statement of Operations and Deficit for the years ended December 31 were as follows:

	2009	2008
Revenues		
Oil and gas sales	$ 1,658	$ 6,723
Royalties	-	(1,714)
	1,658	5,009
Costs and Expenses		
Operating	761	2,202
Exploration	810	10,500
Dry hole costs	21	12,716
Impairment of properties	200	68,556
Accretion	12	55
Depletion, depreciation and amortization	447	1,912
General and administrative	3,072	2,894
Reclassification of cumulative foreign currency translation gain (note 5)	(3,282)	-
	2,041	98,835
Other income		
Interest income	24	1,070
Net loss before income taxes	(359)	(92,756)
Income tax expense	-	-
Discontinued operations		
Loss from operations	(359)	(92,756)
Gain on asset disposals	1,600	-
	$ 1,241	$ (92,756)

Expressed in United States Dollars Unless Otherwise Noted
(Tabular Amounts in Thousands, except Share and Per Share Amounts)

The cash flows relating to discontinued operations in the Consolidated Statement of Cash Flows for the years ended December 31 were as follows:

	2009	2008
Operating activities of discontinued operations		
Income (loss) from discontinued operations	$ 1,241	$ (92,756)
Adjustments for non-cash items:		
Depletion, depreciation and amortization	447	1,912
Impairment of properties	200	68,556
Dry hole costs	21	12,716
Accretion	12	55
Reclassification of cumulative foreign currency translation gain (note 5)	(3,282)	-
Gain on asset disposals	(1,600)	-
Asset retirement obligation	426	1,292
Changes in working capital:		
Accounts receivable	1,377	1,197
Prepaid expenses	1,295	(917)
Accounts payable and accrued expenses	(2,151)	(11,918)
Advances from joint venture partners	163	(163)
	(1,851)	(20,026)
Investing activities of discontinued operations		
Property, plant & equipment	(1,299)	(20,803)
Proceeds from sale of assets	12,487	-
Investments, net	-	31,977
	11,188	11,174
	$ 9,337	$ (8,852)

5. ACCUMULATED OTHER COMPREHENSIVE INCOME

Accumulated other comprehensive income is comprised as follows:

	2009	2008
As at January 1	$ 3,282	$ 3,282
Reclassification of cumulative foreign currency translation gain	(3,282)	
Gain on currency translation of the financial statements of a foreign operation	4	-
As at December 31	$ 4	$ 3,282

Expressed in United States Dollars Unless Otherwise Noted
(Tabular Amounts in Thousands, except Share and Per Share Amounts)

The 2009 financial statements of ShaMaran Petroleum BV, The Hague, Collonge Bellerive Branch have been translated from the functional currency of Swiss Francs into the reporting currency of the Company, with a resulting currency translation gain of $4,000.

Consistent with the sale during the year 2009 of substantially all of its petroleum properties located in the United States, the Company has reclassified the cumulative foreign exchange translation gain which originated in the year 2007. Accordingly, the amount is reflected in the 2009 loss from discontinued operations included in the Consolidated Statement of Operations and Deficit.

6. PROPERTY PLANT AND EQUIPMENT

Property plant and equipment is comprised as follows:

December 31, 2009:		Cost		Accumulated DD&A		Net
Petroleum properties - Kurdistan	$	184,953	$	-	$	184,953
Corporate PP&E		233		(6)		227
	$	185,186	$	(6)	$	185,180

December 31, 2008:		Cost		Accumulated DD&A		Net
Petroleum properties - USA	$	19,717	$	(5,108)	$	14,609
Corporate PP&E		229		(63)		166
PP&E - held for sale	$	19,946	$	(5,171)	$	14,775

During 2009 the Company sold its petroleum properties located in the United States. The remaining United States located petroleum properties retained by the Company are carried at $nil cost. Refer to note 4 for additional information.

On October 16, 2009, the Company completed the acquisition of working interests in three separate exploration and development blocks with the Kurdistan Regional Government ("KRG") in the southeastern area of the autonomous region of Kurdistan in Northern Iraq. In exchange for the working interests the Company paid to various parties cash consideration totaling $90.1 million, and has an obligation as at December 31, 2009 to issue 100 million common shares to the KRG. As of December 31, 2009 these shares remain un-issued by the Company and have been presented as "Shares to be issued" within Shareholder's Equity at a value of $61.3 million. Refer to note 15 for additional information on the working interests.

The acquisition of a company during the year 2009, as described in note 7, has resulted in the capitalization of $31,965,000 in petroleum property costs.

Expressed in United States Dollars Unless Otherwise Noted
(Tabular Amounts in Thousands, except Share and Per Share Amounts)

No depletion has been attributed to the costs of petroleum properties located in Kurdistan, as the related operations are currently in the pre-production exploration stage and, currently, there is no corresponding production or reserves.

7. ACQUISITION

On October 22, 2009 the Company completed the acquisition from Lundin Petroleum B.V. ("LUPE") of 100% of the common shares of BBPL International BV, a company incorporated in the Netherlands, in exchange for consideration of $1.00 in cash and 50 million common shares of the Company issued at a price of Cdn $0.67 per share, for a total purchase price of $31,965,000 The entire purchase price has been allocated to the petroleum properties located in Kurdistan, as described in note 6. An additional 50 million common shares of the Company are issuable to LUPE at such time as a development plan on one of the petroleum properties is approved. The name of the acquired company was subsequently changed to ShaMaran Petroleum BV.

8. SHARE CAPITAL AND CONTRIBUTED SURPLUS

a. Share capital and contributed surplus are comprised as follows:

	No. Shares		Share Capital		Contributed Surplus
Authorized: Unlimited common shares without par value					
Balance - December 31, 2007	308,256,088	$	250,835	$	2,237
Issued - warrants exercised	500,000		50		-
Warrants exercised	-		14		(14)
Stock options granted	-		-		801
Balance - December 31, 2008	308,756,088		250,899		3,024
Issued - private placement	140,000,000		96,250		
Issued - acquisition	50,000,000		31,966		
Issued - options excercised	790,000		558		(210)
Stock options granted	-		-		546
Balance - December 31, 2009	499,546,088	$	379,673	$	3,360

On October 20, 2009, the Company closed a private placement of 140 million common shares at a price of Cdn $0.75 per share. Gross proceeds of the offering were Cdn $105,000,000 (Cdn $99,696,000 net of related fees).

On October 22, 2009, the Company issued 50 million common shares at a price of Cdn $0.67 per share as consideration in the acquisition of a Dutch subsidiary, as indicated in note 7.

Expressed in United States Dollars Unless Otherwise Noted
(Tabular Amounts in Thousands, except Share and Per Share Amounts)

b. Share Options

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 optionee 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. All options granted are subject to a four month hold period from the date of granting. Vesting terms are at the discretion of the Board of Directors. All issued stock options have terms of three to five years and vest over periods of up to three years. The exercise price of an option is not less than the closing price on the TSX Venture Exchange ("the Exchange") on the last trading day preceding the grant date, less the applicable discount, provided that the exercise price will not be less than Cdn $0.10 per share.

Movement in stock options issued and outstanding is as follows:

	Number of Options	Weighted Average Exercise Price
Outstanding at December 31, 2007	3,215,000	Cdn $1.37
Granted	3,660,000	Cdn $0.48
Expired	(250,000)	Cdn $0.75
Cancelled/Forfeited	(5,000)	Cdn $2.15
Outstanding at December 31, 2008	6,620,000	Cdn $0.90
Granted	2,085,000	Cdn $0.66
Exercised	(790,000)	Cdn $0.48
Cancelled/Forfeited	(3,805,000)	Cdn $0.93
Outstanding at December 31, 2009	4,110,000	Cdn $0.82

At December 31, 2009, 2,425,000 options are exercisable at an average exercise price of Cdn $0.82 per share with a weighted average remaining life of 2.38 years.

The incentive stock options issued and outstanding are as follows:

Expiry Date	Number Outstanding at December 31, 2009	Exercise Prices
March 27, 2010	490,000	Cdn $2.15
April 24, 2011	1,235,000	Cdn $0.48
January 18, 2012	300,000	Cdn $1.20
September 10, 2014	1,375,000	Cdn $0.67
September 30, 2014	710,000	Cdn $0.64
	4,110,000	

Expressed in United States Dollars Unless Otherwise Noted
(Tabular Amounts in Thousands, except Share and Per Share Amounts)

Stock Based Compensation

The Company recognizes compensation expense on stock 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 stock option compensation 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.

	2009	2008
Expected dividend yield	0%	0%
Risk-free interest rate (weighted average)	3.32%	3.06%
Expected stock price volatility (weighted average)	85.77%	94.24%
Expected option life in years (weighted average)	3.98	3.00
Grant date fair value (weighted average)	Cdn $0.48	Cdn $0.29

Stock option compensation expense for the current year was $546,000 (2008: $801,000).

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 stock options.

c. Warrants

As at January 1, 2008, the Company had share purchase warrants outstanding to purchase 500,000 shares at Cdn $0.10 per share, exercisable by January 9, 2008. These warrants were subsequently exercised on January 8, 2008. As at December 31, 2009 the Company had no share purchase warrants outstanding.

9. SHARES TO BE ISSUED

During the Annual General Meeting of the Company held on October 16, 2009 the shareholders passed a resolution ratifying and approving certain production sharing contracts with the Kurdistan Regional Government (the "KRG"), which resulted in an obligation for the Company to issue 100 million common shares to the KRG as consideration in exchange for the interests in the corresponding petroleum properties, indicated in note 6. The share price at close of business on October 16, 2009 was Cdn $0.63 which has resulted in total consideration of $61,349,000 (Cdn $63,000,000). At December 31, 2009 the issuance of the shares was pending subject to certain actions to be performed by the KRG.

Expressed in United States Dollars Unless Otherwise Noted
(Tabular Amounts in Thousands, except Share and Per Share Amounts)

10. ASSET RETIREMENT OBLIGATION

The total future asset retirement obligation relates to the remaining interests the Company holds in petroleum properties located in the United States, and was estimated based on the Company's remaining net ownership interest in corresponding wells and facilities, the estimated costs to abandon and reclaim the wells and facilities and the estimated timing of the costs to be incurred in future periods. The Company estimates that the remaining asset retirement obligations will be settled between the years 2010 and 2012. A discount factor of 2% was used to calculate the fair value of the asset retirement obligation.

Changes to the asset retirement obligation were as follows:

		2009		2008
Balance, beginning of year	$	3,261	$	1,914
Liabilities incurred during the year		-		753
Revisions of estimated cash flows		426		673
Liabilities settled during the year		(2,348)		(134)
Accretion		12		55
Balance, end of year	$	1,351	$	3,261

11. INCOME TAXES

a. Income tax expense:

The provision for income taxes reflects an effective tax rate which differs from Federal and Provincial statutory tax rates. The main differences for the years ended December 31, are as follows:

		2009		2008 [1]
Income (loss) from continuing operations	$	1,687	$	(5,294)
Corporate income tax rate		30.0%		31.0%
Computed income tax expense (recovery)		506		(1,641)
Increase (decrease) resulting from:				
Non-taxable foreign exchange gain		(1,482)		-
Share issuance costs charged to share capital		(1,402)		-
Non-deductible compensation expense		164		248
Foreign tax rate difference		12		-
Effect of change in tax rates		448		188
Change in valuation allowance		2,254		954
Effect of change in foreign exchange rates		(446)		483
Other		(42)		(232)
Income tax expense from continuing operations	$	12	$	-

[1] Restated – see note 2.

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The components of the future income tax assets as at December 31, are as follows:

		2009		2008
Non-capital losses	$	60,366	$	24,045
Share issue costs carried forward		2,033		1,311
Properties - tax basis over carrying value		1,160		35,544
Exploration expenses		764		685
Future income tax assets before allowance		64,323		61,585
Valuation allowance		(64,323)		(61,585)
Future income tax asset	$	-	$	-

In the year 2009 the Company acquired petroleum properties with tax bases below the carrying value, resulting in a corresponding future tax liability. The Company has assigned a value of $nil to the future tax liability, as this tax shall be discharged under the terms of the Production Sharing Contracts (see also notes 7 and 15).

b. The Company has tax losses and costs as at December 31, which are available to apply to future taxable income as follows:

		2009		2008
Canadian losses from operations	$	7,401	$	1,527
Canadian exploration expenses		3,057		2,636
Canadian unamortized share issue costs		7,577		4,545
U.S. Federal losses from operations		167,188		67,565
U.S. Federal - tax basis in excess of carrying values of properties		3,315		101,556
Total	$	188,538	$	177,829

The Canadian losses from operations may be used to offset future Canadian taxable income and will expire over the period from 2014 to 2029. 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 2010 to 2013. The U.S. Federal losses are available to offset future taxable income in the United States through 2029.

12. RELATED PARTY TRANSACTIONS

Namdo Management Services Ltd. (“Namdo”) provides corporate administrative support and investor relation services to the Company under an agreement which commenced April 1, 2007. For these services Namdo was paid $214,000 during the current year (2008: $264,000). Namdo is a private corporation owned by a shareholder of the Company.

Mile High Holdings Ltd., a private corporation associated to a shareholder of the Company, provided transportation services to the Company in the amount of $385,000 (2008: $nil) related to petroleum property acquisition and fundraising activities.

During the current year, the Company incurred legal fees of $217,000 (2008: $18,000) with a law firm in which an officer of the Company is a partner.

During the year ended December 31, 2008, the Company incurred geological and geophysical (G&G) costs of $469,000, respectively, with a G&G firm in which an officer of the Company is a managing partner. No charges were incurred from this firm in the current year.

The Company receives services from various subsidiary companies of Lundin Petroleum AB (“Lundin”), a shareholder of the Company. Total Lundin charges during the year were $1,245,000 (2008: $nil), being comprised of G&G and other technical service costs of $317,000 (2008: $nil), reimbursement for travel and related expenses of $207,000 (2008: $nil), office rental, administrative and building services of $86,000 (2008: $nil), and fees of $635,000 (2008: $nil) relating to a guarantee provided to the KRG on behalf of the Company in respect of its minimum financial commitments (see note 15a), charged at a rate of 3% per annum, and payable semi-annually beginning 30 June 2010.

All transactions with related parties are recorded at amounts agreed to by the parties and are made on the same terms and conditions as with non-related parties.

Amounts owing to related parties as at December 31, 2009 were $1,152,000 (2008: $nil), and include $635,000 (2008: $nil) payable to Lundin in respect of a guarantee on the terms described above. All other amounts owing were due on standard terms of net-30 days. The Company was owed no amounts by related parties at the reporting dates.

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company's financial instruments consist of cash and cash equivalents, short-term investments, accounts receivable, accounts payable, accrued expenses and advances from joint interest holders.

Cash and cash equivalents and investments are designated as held for trading and therefore carried at fair value, with unrealized gain or loss recorded in interest income.

The carrying amounts reported in the consolidated balance sheet for short term financial assets and liabilities, which includes accounts receivable, accounts payable, accrued expenses and advances from joint interest holders approximate fair values due to the immediate or short-term maturities of these financial instruments.

The following is a classification of fair value measurements recognized in the consolidated balance sheet using a fair value hierarchy that reflects the significance of the inputs used in making the measurements.

Financial assets	December 31, 2009	Fair value measurement at reporting date using: Quoted prices in active markets identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Held-for trading securities:				
Cash and cash equivalents	$ 63,565	$ 63,565	$ -	$ -
Short-term investments	79	79	-	-
Total	$ 63,644	$ 63,644	$ -	$ -

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 its 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 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 the risk 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 uses authorizations for expenditures 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 portion of its cash in Canadian dollars. The Company's operations are conducted in U.S. dollars. The Company's operating results and cash flows are affected to varying degrees by the changes in the Canadian dollar vis-à-vis the U.S. dollar. Company expenditures are incurred predominately in U.S. dollars. The Company has not entered into any agreements or purchased any instruments to hedge possible currency risks.

At December 31, 2009, the Company had $58,338,000 denominated in Canadian dollars. As of December 31, 2009, with other variables unchanged, a 1% strengthening of the U.S. dollar against the Canadian dollar would decrease the net income by $552,000 due to this financial asset.

(Tabular Amounts in Thousands, except Share and Per Share Amounts)

Commodity price risk – The prices that the Company received for its crude oil and natural gas production may have had a significant impact on its revenue and cash provided by operating activities. Any significant price decline in commodity prices would have adversely affected the amount of funds available for capital reinvestment purposes. The Company did 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. At December 31, 2009, the Company had $58,338,000 denominated in Canadian dollars. As of December 31, 2009, with other variables unchanged, a 0.25% weakening of the interest rate on Canadian funds on deposit would decrease the net income by approximately $145,000 due to this financial asset.

14. CAPITAL DISCLOSURE

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern such that it can provide returns for shareholders and benefits for other stakeholders.

The Company considers its capital structure to include shareholders' equity and working capital. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust its capital structure, the Company may issue new shares or sell assets to settle liabilities. The Company is not subject to externally imposed capital requirements.

The components of the Company's capital structure as at December 31, are as follows:

	2009	2008
Current assets	$ 64,819	$ 48,819
Current liabilities	(4,916)	(7,224)
Working capital	$ 59,903	$ 41,595
Shareholders' equity	$ 244,563	$ 54,466

15. COMMITMENTS AND CONTINGENCIES

a. Production Sharing Contracts ("PSC"):

The Company entered into two PSCs during the year 2009, which govern its petroleum operations in two separate petroleum exploration and development properties, the Pulkhana Block 10 and the Arbat Block, located in the Kurdistan Region of Iraq.

Under the terms of the Pulkhana PSC, the Company holds a 60% undivided interest in the petroleum operations, Petoil Petroleum and Petroleum Products International Exploration and Production Inc ("Petoil") holds a 20% interest and the remaining 20% is held by the Kurdistan Regional Government (the "KRG"). The Company is required to pay 100% of the minimum financial commitment in respect of the first exploration sub-period, which is 36 months from the commencement of the PSC with option to extend by one year. Under the terms of the Pulkhana PSC, the Company is the operator and collectively with Petoil, represent the "Contractor".

Under the terms of the Arbat PSC, the Company holds a 60% undivided interest in the petroleum operations, the KRG holds a 20% interest and the remaining 20% is a third party interest which the KRG has the option to assign to a third party or parties. The Company is required to pay 100% of the minimum financial commitment in respect of the first exploration sub-period or until such time as the KRG's reserved 20% interest has been sold, following which the Company will pay 75% of the forward costs and receive a reimbursement for 25% of the costs incurred to that date. Under the terms of the Arbat PSC, the Company is the operator and represents the "Contractor".

The PSCs contemplate a minimum financial commitment of $61 million in respect of the first exploration sub-period for the Pulkhana and Arbat Blocks combined. The PSCs also require the Contractor to fund certain personnel, training, environmental, and technological assistance projects, during the period over which the contracts are in effect. As at December 31, 2009 the commitments under the two PSCs were approximately $64 million.

All qualifying petroleum costs incurred by the Contractor shall be recovered from a portion of available petroleum production, defined under the terms of the PSCs. At any time during the exploration period the Contractor has the right to terminate the PSCs, by surrendering the entire contract area.

b. Amendment and Novation Agreement to the Block K42 Option Agreement ("K42 Option Agreement")

During the year 2009 the Company became party to the K42 Option Agreement between the KRG and Oil Search (Iraq) Limited ("OSIL"), which allows an option to the Company and OSIL to enter into with the KRG a PSC relating to the exploration and development of petroleum resources in the Block K42 contract area located in Kurdistan Region of Iraq, the terms of which have been agreed in principle.

In accordance with the K42 Block PSC, OSIL is the operator and, collectively with the Company, represent the "Contractor". Upon exercise of the option, the Company would acquire not less than an undivided 20% interest in the petroleum operations in respect of the K42 Block contract area, with OSIL holding a 60% interest and the KRG holding the remaining 20%. If either the Company or OSIL elect not to exercise its option in respect of the Contract the other party has the option of acquiring the exiting party's rights and obligations.

This K42 Option Agreement requires the Contractor to conduct certain seismic services, including the acquisition of 200 kilometers of seismic surveying, within the option period of 18 months commencing October 1, 2009, which is extendable for a further three months. Provided that the seismic services are completed prior to the expiry of the option period, the option to enter into a PSC may be exercised by providing written notice to the KRG. The Contractor is to pay 100% of all the costs incurred during the option period, 25% of which are to be paid by the Company.

The Company estimates its remaining minimum commitments under the K 42 Option Agreement to be approximately $2 million as at December 31, 2009.

All qualifying petroleum costs incurred by the Contractor during the option period would be recoverable from a portion of available petroleum production, defined under the terms of the PSC.

c. Net Profit Interest

The Company has entered into agreements for local services whereby certain third parties are entitled to receive a net profit interest in respect of the Pulkhana Block 10 and Arbat Block PSCs.

d. Other commitments

The Company has leases for office space which expire during the year 2010. As at December 31, 2009 the future minimum commitments relating to office leases was $69,000.

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