



**Shamaran Petroleum Corp**  
**Interim Consolidated Financial Statements (unaudited)**  
**For the three and nine months ended September 30, 2010 and 2009**  
Prepared by Management

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*The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of the management of the company. The company's independent auditor has not performed a review of these financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.*

**SHAMARAN PETROLEUM CORP.**  
**Interim Consolidated Balance Sheets (unaudited)**  
*(Expressed in thousands of United States Dollars)*

	Note	September 30, 2010	December 31, 2009
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	5	70,014	63,565
Short-term investments	3	79	79
Accounts receivable	3	164	566
Inventory		124	-
Prepaid expenses and other assets	3	611	609
		<b>70,992</b>	<b>64,819</b>
Non-current assets			
Investment in company	6	45,112	-
Property, plant and equipment	7	142,160	185,180
		<b>187,272</b>	<b>185,180</b>
		<b>258,264</b>	<b>249,999</b>
<b>LIABILITIES</b>			
Current liabilities			
Accounts payable and accrued expenses	3	6,797	3,866
Net payable to joint venture partner		28	37
Income taxes payable		58	12
Asset retirement obligation – discontinued operations	3	1,341	1,001
Deferred consideration	6	15,843	-
		<b>24,067</b>	<b>4,916</b>
Non-current liabilities			
Asset retirement obligation – discontinued operations	3	350	350
Other long-term liabilities		746	170
		<b>1,096</b>	<b>520</b>
		<b>25,163</b>	<b>5,436</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	8	432,488	379,673
Shares to be issued	8	-	61,349
Contributed surplus	8	3,748	3,360
Accumulated other comprehensive income	4	89	4
Deficit		(203,224)	(199,823)
		<b>233,101</b>	<b>244,563</b>
		<b>258,264</b>	<b>249,999</b>

Commitments and contingencies (note 11)

See accompanying notes to the Interim Consolidated Financial Statements.

Approved on behalf of the Board:

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Cameron Bailey, Director

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Keith Hill, Director

**SHAMARAN PETROLEUM CORP.**  
**Interim Consolidated Statement of Operations and Deficit (unaudited)**

*(Expressed in thousands of United States Dollars, except for per share data)*

	Note	For the three months ended September 30,		For the nine months ended September 30,	
		2010	2009	2010	2009
<b>Expenses</b>					
Depreciation		41	-	96	-
General and administrative		643	642	1,222	1,832
Stock-based compensation	8	70	366	388	447
		<b>754</b>	<b>1,008</b>	<b>1,706</b>	<b>2,279</b>
<b>Other expenses/(income)</b>					
Guarantee fees	10	456	-	1,363	-
Interest income		(99)	(62)	(239)	(243)
Loss from investment in company	6	73	-	73	-
Foreign exchange gain		(501)	(4,143)	(431)	(4,911)
		<b>(71)</b>	<b>(4,205)</b>	<b>766</b>	<b>(5,154)</b>
<b>Net (loss)/income before income taxes</b>		<b>(683)</b>	<b>3,197</b>	<b>(2,472)</b>	<b>2,875</b>
Income tax expense	9	16	-	43	-
<b>Net (loss)/income from continuing operations</b>		<b>(699)</b>	<b>3,197</b>	<b>(2,515)</b>	<b>2,875</b>
<b>Discontinued operations</b>					
(Loss)/income from operations	3	(48)	131	(963)	(1,820)
(Loss)/gain on asset disposal	3	-	(173)	77	1,604
		<b>(48)</b>	<b>(42)</b>	<b>(886)</b>	<b>(216)</b>
<b>Net (loss)/income</b>		<b>(747)</b>	<b>3,155</b>	<b>(3,401)</b>	<b>2,659</b>
<b>Deficit, beginning of the period</b>		<b>(202,477)</b>	<b>(203,235)</b>	<b>(199,823)</b>	<b>(202,739)</b>
<b>Deficit, end of the period</b>		<b>(203,224)</b>	<b>(200,080)</b>	<b>(203,224)</b>	<b>(200,080)</b>
<b>Basic income per share:</b>					
Continuing operations		0.00	0.01	0.00	0.01
Discontinued operations		0.00	0.00	0.00	0.00
		<b>0.00</b>	<b>0.01</b>	<b>0.00</b>	<b>0.01</b>
<b>Diluted income per share:</b>					
Continuing operations		0.00	0.01	0.00	0.01
Discontinued operations		0.00	0.00	0.00	0.00
		<b>0.00</b>	<b>0.01</b>	<b>0.00</b>	<b>0.01</b>
<b>Weighted average number of common shares:</b>					
Continuing operations		521,210	308,991	506,847	308,836
Discontinued operations		521,210	308,991	506,847	308,836

See accompanying notes to the Interim Consolidated Financial Statements.

**SHAMARAN PETROLEUM CORP.**  
**Interim Consolidated Statement of Comprehensive Income (unaudited)**  
*(Expressed in thousands of United States Dollars)*

	For the three months ended September 30,		For the nine months ended September 30,	
	2010	2009	2010	2009
<b>Net (loss)/income</b>	<b>(747)</b>	<b>3,155</b>	<b>(3,401)</b>	<b>2,659</b>
Other comprehensive income:				
Exchange gains arising from translation of the financial statements of a foreign operation	111	-	85	-
<b>Comprehensive (loss)/income</b>	<b>(636)</b>	<b>3,155</b>	<b>(3,316)</b>	<b>2,659</b>

See accompanying notes to the Interim Consolidated Financial Statements.

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

	Note	For the three months ended September 30,		For the nine months ended September 30,	
		2010	2009	2010	2009
<b>Operating activities of continuing operations</b>					
Net (loss)/income from continuing operations		(699)	3,197	(2,515)	2,875
Adjustments for non-cash items:					
Depreciation		41	-	96	-
Stock-based compensation		70	366	388	447
Unrealized foreign exchange gain		(28)	-	(98)	-
Loss from investment in company		73	-	73	-
Changes in working capital:					
Accounts receivable		48	-	(74)	-
Prepaid expenses and other assets		(306)	-	(337)	-
Accounts payable and accrued expenses		3,394	-	3,376	-
Net payable to joint venture partner		19	-	(10)	-
Income taxes payable		19	-	46	-
		<b>2,631</b>	<b>3,563</b>	<b>945</b>	<b>3,322</b>
<b>Investment activities of continuing operations</b>					
Property, plant and equipment		(9,105)	-	(17,848)	-
Investment in company		(24,342)	-	(24,342)	-
		<b>(33,447)</b>	<b>-</b>	<b>(42,190)</b>	<b>-</b>
<b>Financing activities of continuing operations</b>					
Proceeds net of costs on issuance of shares		47,815	311	47,815	348
		<b>47,815</b>	<b>311</b>	<b>47,815</b>	<b>348</b>
Effect of exchange rate changes on cash and cash equivalents		140	-	(16)	-
<b>Cash flows from continuing operations</b>		<b>17,139</b>	<b>3,874</b>	<b>6,554</b>	<b>3,670</b>
Cash flows from/(used in) discontinued operations	3	119	104	(105)	10,892
<b>Change in cash and cash equivalents</b>		<b>17,258</b>	<b>3,978</b>	<b>6,449</b>	<b>14,562</b>
Cash and cash equivalents, beginning of the period		52,756	55,866	63,565	45,282
<b>Cash and cash equivalents, end of the period</b>		<b>70,014</b>	<b>59,844</b>	<b>70,014</b>	<b>59,844</b>

See accompanying notes to the Interim Consolidated Financial Statements.

**SHAMARAN PETROLEUM CORP.**  
**Notes to the Interim Consolidated Financial Statements (unaudited)**  
**For the three and nine months ended September 30, 2010 and 2009**  
*(Expressed in thousands of United States Dollars unless otherwise indicated)*

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**1. NATURE OF OPERATIONS**

ShaMaran Petroleum Corp. (the "Company" and formerly Bayou Bend Petroleum Ltd., together with its subsidiaries the "Group") is incorporated under the British Columbia Business Corporations Act.

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 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 ("Kurdistan"). The Company conducts its operations through wholly owned subsidiary entities.

**2. SIGNIFICANT ACCOUNTING POLICIES**

**(a) Basis of Presentation**

These Interim Consolidated Financial Statements (unaudited) for the three and nine months ended September 30, 2010 and 2009, include the accounts of the Company and its wholly owned subsidiaries and its proportionate interest in joint ventures, and have been prepared in accordance with generally accepted accounting principles in Canada.

These Interim Consolidated Financial Statements (unaudited) have been prepared under the same accounting policies as the audited financial statements of the Company for the year ended December 31, 2009. Certain disclosures that are normally required to be included in the notes to the annual audited financial statements have been condensed or excluded. These financial statements should be read in conjunction with the Company's audited consolidated financial statements and accompanying notes for the year ended December 31, 2009. Refer also to note 2(c).

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. For the three and nine months ended September 30, 2010 and 2009, the financial results relating to these properties have been classified as discontinued operations. Refer to note 3.

**(b) Going concern**

These Interim Consolidated Financial Statements have been prepared assuming that the Group 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 financing to develop reserves.

**SHAMARAN PETROLEUM CORP.**  
**Notes to the Interim Consolidated Financial Statements (unaudited)**  
**For the three and nine months ended September 30, 2010 and 2009**  
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**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(c) Investments**

During August 2010, the Company acquired a 33.5% interest in a company to which it exerts significant influence. Investments in companies over which the Company has significant influence are accounted for using the equity method. Refer to note 6.

**(d) Future accounting standards**

*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, investments and taxation.

*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.

*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.

**SHAMARAN PETROLEUM CORP.**  
**Notes to the Interim Consolidated Financial Statements (unaudited)**  
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*(Expressed in thousands of United States Dollars unless otherwise indicated)*

**3. 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 financial position of discontinued operations included within the Interim Consolidated Balance Sheet (unaudited) is as follows:

	September 30, 2010	December 31, 2009
<b>ASSETS</b>		
Current assets		
Short-term investments	79	79
Accounts receivable	59	535
Prepaid expenses and other assets	22	233
	<b>160</b>	<b>847</b>
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable and accrued expenses	1,371	1,816
Asset retirement obligation	1,341	1,001
	<b>2,712</b>	<b>2,817</b>
Non-current liabilities		
Asset retirement obligation	350	350
	<b>3,062</b>	<b>3,167</b>
<b>NET LIABILITIES</b>	<b>2,902</b>	<b>2,320</b>

The current and non-current portion of the Group's asset retirement obligation pertaining to discontinued operations at September 30, 2010, of \$1,341,000 (2009: \$1,001,000) and \$350,000 (2009: \$350,000), respectively, relate to the remaining interests the Group holds in petroleum properties located in the United States. The liability was estimated based on the Group's remaining net ownership interest in the 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.



**SHAMARAN PETROLEUM CORP.**  
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**3. DISCONTINUED OPERATIONS (continued)**

The results of discontinued operations in the Interim Consolidated Statement of Operations and Deficit (unaudited) are as follows:

	For the three months ended September 30,		For the nine months ended September 30,	
	2010	2009	2010	2009
<b>Revenue</b>				
Oil and gas sales	-	-	-	2,089
Royalties	-	-	-	(431)
<b>Net revenues</b>	-	-	-	<b>1,658</b>
<b>Expenses</b>				
Operating	-	-	10	774
Exploration	-	-	-	810
Dry hole costs	-	-	-	21
Asset retirement obligation	-	-	339	38
Accretion	-	-	-	12
Depletion, depreciation and amortization	-	-	-	447
Foreign exchange gain	-	(238)	-	(238)
General and administrative	48	119	614	1,626
	<b>48</b>	<b>(119)</b>	<b>963</b>	<b>3,490</b>
<b>Other income</b>				
Interest income	-	12	-	12
<b>Net (loss)/income</b>	<b>(48)</b>	<b>131</b>	<b>(963)</b>	<b>(1,820)</b>
<b>Discontinued operations</b>				
(Loss)/income from operations	<b>(48)</b>	<b>131</b>	<b>(963)</b>	<b>(1,820)</b>
(Loss)/gain on asset disposal	-	(173)	77	1,604
<b>Net (loss)/income</b>	<b>(48)</b>	<b>(42)</b>	<b>(886)</b>	<b>(216)</b>

During the nine months ended September 30, 2010, the remaining inventories in the United States from discontinued operations were sold for gross proceeds of \$277,000, and a resulting gain of \$77,000. In the comparable period in 2009, the Company sold substantially all of its oil and gas properties located in the United States for gross proceeds of \$12,487,000, and a resulting gain on asset disposals of \$1,604,000.

**SHAMARAN PETROLEUM CORP.**  
**Notes to the Interim Consolidated Financial Statements (unaudited)**  
**For the three and nine months ended September 30, 2010 and 2009**  
*(Expressed in thousands of United States Dollars unless otherwise indicated)*

**3. DISCONTINUED OPERATIONS (continued)**

The cash flows relating to discontinued operations in the Interim Consolidated Statement of Cash Flows (unaudited) are as follows:

	For the three months ended September 30,		For the nine months ended September 30,	
	2010	2009	2010	2009
<b>Operating activities of discontinued operations</b>				
Loss from discontinued operations	(48)	(42)	(886)	(216)
Adjustments for non-cash items:				
Depletion, depreciation and amortization	-	-	-	447
Impairment of properties	-	-	339	38
Dry hole costs	-	-	-	21
Accretion	-	-	-	12
Loss/(gain) on asset disposal	-	173	(77)	(1,604)
Asset retirement obligation	-	-	-	426
Changes in working capital:				
Accounts receivable	255	370	476	1,402
Prepaid expenses	(22)	103	211	1,012
Accounts payable and accrued expenses	(66)	(624)	(445)	(2,807)
	<b>119</b>	<b>(20)</b>	<b>(382)</b>	<b>(1,269)</b>
<b>Investing activities of discontinued operations</b>				
Property, plant & equipment	-	124	-	(326)
Proceeds from sale of assets	-	-	277	12,487
	<b>-</b>	<b>124</b>	<b>277</b>	<b>12,161</b>
<b>Cash flows from/(used in) discontinued operations</b>	<b>119</b>	<b>104</b>	<b>(105)</b>	<b>10,892</b>

**SHAMARAN PETROLEUM CORP.**  
**Notes to the Interim Consolidated Financial Statements (unaudited)**  
**For the three and nine months ended September 30, 2010 and 2009**  
*(Expressed in thousands of United States Dollars unless otherwise indicated)*

**4. ACCUMULATED OTHER COMPREHENSIVE INCOME**

Accumulated other comprehensive income is comprised as follows:

	<b>Accumulated and other comprehensive income</b>
<b>As at December 31, 2008</b>	<b>3,282</b>
Reclassification of cumulative foreign currency translation gain	(3,282)
Gain on currency translation of the financial statements of a foreign operation	4
<b>As at December 31, 2009</b>	<b>4</b>
Gain/(loss) on currency translation of the financial statements of a foreign operation:	
For the three months ended March 31, 2010	2
For the three months ended June 30, 2010	(28)
For the three months ended September 30, 2010	111
<b>As at September 30, 2010</b>	<b>89</b>

The financial statements of the Swiss branch entity of the Group have been translated from the functional currency of Swiss Francs into the reporting currency of the Company, with a resulting currency translation gain of \$111,000 for the three months ended September 30, 2010 and \$85,000 for the nine months ended September 30, 2010 (December 31, 2009: gain of \$4,000).

Consistent with the sale during 2009 of substantially all of the Group's petroleum properties located in the United States, the cumulative foreign currency translation gain of \$3,282,000 which originated in 2007 was reclassified. Accordingly, the amount was reflected in the loss from discontinued operations for the year ended December 31, 2009.

**5. CASH AND CASH EQUIVALENTS**

Cash and cash equivalents consist primarily of cash deposits held in Canadian dollars.

**6. INVESTMENT IN COMPANY**

On August 27, 2010, ShaMaran Ventures BV, a wholly owned subsidiary of the Company, entered into a Subscription Agreement and a Shareholders Agreement with Aspect Energy International, LLC ("Aspect") to acquire 33.5% of the fully-diluted share capital of General Exploration Partners Inc ("GEP"), a wholly owned subsidiary of Aspect. The total consideration paid for the investment in GEP was \$29.3 million, comprised of cash payments totaling \$24.3 million and share consideration of \$5.0 million, representing 12.5 million shares of the Company.

**SHAMARAN PETROLEUM CORP.**  
**Notes to the Interim Consolidated Financial Statements (unaudited)**  
**For the three and nine months ended September 30, 2010 and 2009**  
*(Expressed in thousands of United States Dollars unless otherwise indicated)*

**6. INVESTMENT IN COMPANY (continued)**

In addition, the Company has a future obligation to contribute the next \$15.8 million in cash which will be required to fund GEP's oil exploration and development operations and will be recovered on a first in first out basis from a portion of available petroleum production in the future. This amount has been recognized as deferred consideration at September 30, 2010 with a corresponding increase to the carrying value of the investment in GEP.

GEP holds an 80% working interest in the Production Sharing Contract ("PSC") in respect of the Atrush Block Oil and Gas Exploration Area located in Kurdistan.

As the Company is able to exert significant influence over its investment in GEP, the investment has been accounted for using the equity method, resulting in a loss from investment of \$73,000 during the three and nine months ended September 30, 2010.

**7. PROPERTY PLANT AND EQUIPMENT**

Property plant and equipment is comprised as follows:

	Cost	Accumulated depreciation	Net book value
<b>As at September 30, 2010:</b>			
Petroleum properties – Kurdistan	141,684	-	141,684
Corporate PP&E	584	(108)	476
	<b>142,268</b>	<b>(108)</b>	<b>142,160</b>
<b>As at December 31, 2009:</b>			
Petroleum properties – Kurdistan	184,953	-	184,953
Corporate PP&E	233	(6)	227
	<b>185,186</b>	<b>(6)</b>	<b>185,180</b>

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.

As disclosed in note 8(b), in August 2010, the Group executed agreements with the Kurdistan Regional Government ("KRG") to amend the Pulkhana Block 10 and the Arbat Block PSCs, waiving the Group of its previous contractual requirement to issue 150 million common shares of the Company to the KRG. At September 30, 2010 an adjustment was made to reduce the carrying value of the Group's petroleum properties by \$61,349,000 representing the amount previously capitalized in relation to this obligation.

**SHAMARAN PETROLEUM CORP.**  
**Notes to the Interim Consolidated Financial Statements (unaudited)**  
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**8. SHARE CAPITAL AND CONTRIBUTED SURPLUS**

**(a) Share capital and contributed surplus**

The Company is authorized to issue an unlimited number of common shares with no par value.

Share capital and contributed surplus are comprised as follows:

	Number of shares	Share capital	Contributed surplus
<b>Balance at December 31, 2008</b>	<b>308,756,088</b>	<b>250,899</b>	<b>3,024</b>
Private placement	140,000,000	96,250	-
Shares issuance (acquisition)	50,000,000	31,966	-
Stock option expense during the year	790,000	558	336
<b>Balance at December 31, 2009</b>	<b>499,546,088</b>	<b>379,673</b>	<b>3,360</b>
Share issuance (see note 6)	12,500,000	5,000	-
Private placement	111,111,106	47,815	-
Stock option expense:			
For the three months ended March 31, 2010	-	-	204
For the three months ended June 30, 2010	-	-	114
For the three months ended September 30, 2010	-	-	70
<b>Balance at September 30, 2010</b>	<b>623,157,194</b>	<b>432,488</b>	<b>3,748</b>

**(b) Shares to be issued**

In August 2010, the Group executed agreements with the Kurdistan Regional Government to amend the Pulkhana Block 10 and the Arbat Block PSCs. The amendments waive the Group of its previous contractual requirement to issue 150 million common shares of the Company to the KRG, which was comprised of 100 million shares now due plus a further 50 million shares due 30 days prior to the expiry of the first exploration sub-period in the Pulkhana Block, and in exchange require the Group to contribute 20% of its profit oil share (produced oil, less royalty and cost oil) from the Pulkhana Block 10 PSC and the Arbat Block PSC as capacity building payments to the Government.

At September 30, 2010, the amount previously recognized as shares to be issued of \$61,349,000 was reversed with a corresponding decrease to the cost of the Group's petroleum properties within property, plant and equipment. Refer also to note 7.

**SHAMARAN PETROLEUM CORP.**  
**Notes to the Interim Consolidated Financial Statements (unaudited)**  
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**8. SHARE CAPITAL AND CONTRIBUTED SURPLUS (continued)**

**(c) 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 grant. 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 (Cdn \$)
<b>Outstanding at December 31, 2009</b>	<b>4,110,000</b>	<b>0.82</b>
Granted	1,240,000	0.49
Cancelled/forfeited	(915,000)	1.20
<b>Outstanding at September 30, 2010</b>	<b>4,435,000</b>	<b>0.65</b>

At September 30, 2010, 3,130,000 options were exercisable at an average exercise price of Cdn \$0.69 per share with a weighted average remaining life of 2.32 years.

The incentive stock options issued and outstanding are as follows:

Expiry date	Number of options outstanding at September 30, 2010	Exercise price (Cdn \$)
April 24, 2011	1,235,000	0.48
January 18, 2011	300,000	1.20
March 27, 2012	150,000	2.15
September 10, 2014	875,000	0.67
September 30, 2014	710,000	0.64
January 3, 2015	600,000	0.47
March 25, 2015	100,000	0.60
May 11, 2015	75,000	0.43
August 9, 2014	75,000	0.43
September 22, 2015	315,000	0.54
	<b>4,435,000</b>	

**SHAMARAN PETROLEUM CORP.**  
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**8. SHARE CAPITAL AND CONTRIBUTED SURPLUS (continued)**

**(c) Share options (continued)**

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:

	<b>December 31,</b>	<b>September 30,</b>
	<b>2010</b>	<b>2009</b>
Expected dividend yield	0%	0%
Risk-free interest rate (weighted average)	3.22%	3.32%
Expected stock price volatility (weighted average)	86.84%	95.77%
Expected option life in years (weighted average)	4.10	3.98
Grant date fair value (weighted average)	Cdn \$0.36	Cdn \$0.48

Stock option compensation expense for the three and nine months ended September 30, 2010 was \$70,000 (2009: \$366,000) and \$388,000 (2009: \$447,000), respectively.

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.

**9. INCOME TAXES**

For the three and nine months ended September 30, 2010, the Group had income tax expense of \$16,000 and \$43,000, respectively, relating to a provision for income tax on service income generated in the Swiss branch entity of the Group, which was created in the fourth quarter of 2009. There was no income tax expense reported in the comparable periods in 2009, as there was no taxable income in any of the Group companies.

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**10. 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. The Company incurred fees for these services and associated reimbursable costs of \$23,000 (2009: \$64,000) and \$110,000 (2009: \$163,000), for the three and nine months ended September 30, 2010, respectively. Namdo is a private corporation owned by a shareholder of the Company. There was no amount owing to this related party at September 30, 2010 (2009: \$32,000).

Mile High Holdings Ltd., a private corporation associated with a shareholder of the Company, provided transportation services to the Company relating to its fundraising activities in the amount of \$139,000 (2009: \$nil) during the nine months ended September 30, 2010. No services were provided to the Company during the three months ended September 30, 2010 (2009: \$nil). There was no amount owing to this related party at September 30, 2010 (2009: \$nil).

During the three and nine months ended September 30, 2010, the Company incurred legal fees of \$19,000 (2009: \$13,000) and \$60,000 (2009: \$75,000), respectively, with a law firm in which an officer of the Company is a partner. The amount owing to this related party at September 30, 2010 was \$7,000 (2009: \$6,000).

The Company receives services from various subsidiary companies of Lundin Petroleum AB ("Lundin"), a shareholder of the Company. Lundin charges for the three and nine months ended September 30, 2010 were \$757,000 (2009: \$159,000) and \$2,351,000 (2009: \$159,000), respectively. The charges for the three and nine months ended September 30, 2010, were comprised of G&G and other technical service costs of \$45,000 (2009: \$68,000) and \$169,000 (2009: \$68,000), reimbursement for Company travel and related expenses of \$164,000 (2009: \$91,000) and \$497,000 (2009: \$91,000), office rental, administrative and building services of \$92,000 (2009: \$nil) and \$322,000 (2009: \$nil), and charges of \$456,000 (2009: \$nil) and \$1,363,000 (2009: \$nil) relating to a guarantee provided to the KRG on behalf of the Company in respect of its minimum financial commitments, charged at a rate of 3% per annum, and payable semi-annually. The amount owing to Lundin at September 30, 2010 was \$545,000 (2009: \$159,000).

Total amounts owing to related parties as at September 30, 2010 and 2009 were \$552,000 and \$197,000, respectively. The Company was owed no amounts by related parties at the reporting dates.

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.



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**11. COMMITMENTS AND CONTINGENCIES**

**(a) Production Sharing Contracts (“PSC”)**

As described in Note 15 to the audited consolidated financial statements for the year ended December 31, 2009, the Group had a combined \$61.0 million minimum financial commitment in respect of the first exploration sub-period relating to the PSCs governing its petroleum operations in two separate petroleum exploration and development properties, the Pulkhana Block 10 (“Pulkhana Block”) and the Arbat Block, located in the Kurdistan Region of Iraq. The PSCs also require the Group to fund certain personnel, training, environmental, and technological assistance projects, during the period over which the contracts are in effect. As at September 30, 2010, the Group had executed \$11.0 million of its minimum financial obligations through the completion of its two dimensional (“2D”) seismic acquisition program in both Blocks.

All qualifying petroleum costs incurred by the Group 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 Group has the right to terminate the PSCs, by surrendering the entire contract area.

**(b) Amendment and Novation Agreement to the Block 42 Option Agreement (“K42 Option Agreement”)**

As described in Note 15 to the audited consolidated financial statements for the year ended December 31, 2009, the K42 Option Agreement requires the Group to conduct certain seismic services, including the acquisition of 200 kilometers of seismic surveying, within the option period of 18 months commencing November 1, 2009, which is extendable for a further three months. Provided that seismic services are completed prior to the expiry of the period, the option to enter into a PSC may be exercised by providing written notice to the KRG. The Group, together with the operator, Oil Search (Iraq) Limited, are required to pay 100% of all the costs incurred during the option period, 25% of which are to be paid by the Group.

The Group estimates its remaining minimum commitments under the K42 Option Agreement to be approximately \$0.1 million as at September 30, 2010.

All qualifying petroleum costs incurred by the Group during the option period shall be recovered from a portion of available petroleum production, defined under the terms of the PSC.

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**11. COMMITMENTS AND CONTINGENCIES (continued)**

**(c) Investment in GEP**

During August 2010, the Group acquired a 33.5% stake in General Exploration Partners Inc (“GEP”). As part of the acquisition, the Group has a future obligation to contribute the next \$15.8 million in cash which will be required to fund GEP’s oil exploration and development operations, thereafter, the shareholders of GEP will fund operations pro-rata according to their participating interest. Refer also to note 6.

**(d) Net Profit Interest**

During 2009 the Company entered into a non-legally binding heads of agreement (“HOA”) which offered a net profit interest to certain parties in the Pulkhana and Arbat PSC’s. This non-legally binding HOA was not formalized into a legally binding agreement and expired on December 31, 2009.

**SHAMARAN PETROLEUM CORP.**

<b>DIRECTORS</b>	<b>CORPORATE INFORMATION</b>
<p><b>Keith C. Hill</b> Director, Chairman Vancouver, British Columbia</p> <p><b>Pradeep Kabra</b> Director, President &amp; Chief Executive Officer Geneva, Switzerland</p> <p><b>Brian D. Edgar</b> Director Vancouver, British Columbia</p> <p><b>Gary S. Guidry</b> Director Calgary, Alberta</p> <p><b>Alexandre Schneiter</b> Director Anieres, Switzerland</p> <p><b>J. Cameron Bailey</b> Director Calgary, Alberta</p>	<p><b>CORPORATE OFFICE</b> 885 West Georgia Street Suite 2101 Vancouver, British Columbia V6C 3E8 Telephone: +1-604-689-7842 Facsimile: +1-604-689-4250 Website: <a href="http://www.shamaranpetroleum.com">www.shamaranpetroleum.com</a></p> <p><b>OPERATIONS OFFICE</b> 5 Chemin de la Pallanterie 1222 Vésenaz Switzerland Telephone: +41-22-560-8600 Facsimile: +41-22-560-8601</p> <p><b>BANKER</b> HSBC Bank Canada Vancouver, British Columbia</p> <p><b>AUDITOR</b> PricewaterhouseCoopers LLP London, UK</p> <p><b>TRANSFER AGENT</b> Computershare Trust Company of Canada Vancouver, British Columbia</p> <p><b>STOCK EXCHANGE LISTING</b> TSX Venture Exchange Trading Symbol: SNM</p> <p><b>INVESTOR RELATIONS</b> Sophia Shane Vancouver, British Columbia</p>
<b>OFFICERS</b>	
<p><b>Brenden Johnstone</b> Chief Financial Officer Geneva, Switzerland</p> <p><b>Kevin E. Hisko</b> Corporate Secretary Vancouver, British Columbia</p>	