ShaMaran Petroleum Corp

Condensed Consolidated Interim Financial Statements (unaudited)

For the three and six months ended June 30, 2011 and 2010

Prepared by Management

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.

SHAMARAN PETROLEUM CORP.

Condensed Consolidated Interim Statement of Comprehensive Income

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

	Note	Three months ended June 30, 2011	Three months ended June 30, 2010	Six months ended June 30, 2011	Six months ended June 30, 2010
Expenses from continuing operations					
General and administrative		(837)	(360)	(1,001)	(579)
Share based payments	17	(114)	(161)	(173)	(415)
Depreciation expense		(56)	(29)	(108)	(55)
Share of loss of associate	13	(30)	-	(109)	-
Operating loss		**(1,037)**	**(550)**	**(1,391)**	**(1,049)**
Finance costs	7	(229)	(2,212)	(456)	(976)
Finance income	8	367	74	1,529	140
Net finance income / (loss)		**138**	**(2,138)**	**1,073**	**(836)**
Loss before income tax expense		**(899)**	**(2,688)**	**(318)**	**(1,885)**
Income tax expense	9	(33)	(14)	(74)	(27)
Net loss from continuing operations		**(932)**	**(2,702)**	**(392)**	**(1,912)**
Discontinued operations					
Loss from discontinued operations	10	(43)	(728)	(121)	(839)
Net loss for the period		**(975)**	**(3,430)**	**(513)**	**(2,751)**
Other comprehensive income:					
Currency translation differences		33	(28)	69	(26)
Total other comprehensive income / (loss)		**33**	**(28)**	**69**	**(26)**
Total comprehensive loss for the period		**(942)**	**(3,458)**	**(444)**	**(2,777)**
Earnings per share:					
Continuing operations					
Basic and diluted		-	(0.01)	-	-
Discontinued operations					
Basic and diluted		-	-	-	-
Continuing and discontinued operations					
Basic and diluted		-	(0.01)	-	-

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

SHAMARAN PETROLEUM CORP.

Condensed Consolidated Interim Balance Sheet (unaudited)

(Expressed in thousands of United States Dollars)

	Note	June 30, 2011	December 31, 2010	January 1, 2010
Assets				
Non-current assets				
Exploration, evaluation and other intangible assets	11	179,769	149,892	185,035
Property, plant & equipment	12	759	330	145
Investment in associate	13	46,973	44,282	-
		227,501	**194,504**	**185,180**
Current assets				
Other current assets		1,051	447	376
Inventories		3,216	2,656	-
Trade and other receivables		160	124	31
Cash and cash equivalents		71,967	58,684	63,565
		76,394	**61,911**	**63,972**
Assets associated with discontinued operations	10	**79**	**74**	**847**
Total assets		**303,974**	**256,489**	**249,999**
Liabilities				
Current liabilities				
Trade and other payables	14	12,883	5,156	2,087
Current tax liabilities		194	103	12
Deferred consideration	13	-	12,643	-
		13,077	**17,902**	**2,099**
Non-current liabilities				
Provisions	15	888	-	-
Other long-term liabilities		-	-	170
		888	**-**	**170**
Liabilities associated with discontinued operations	10	**2,841**	**3,069**	**3,167**
Total liabilities		**16,806**	**20,971**	**5,436**
Equity				
Share capital	16	484,831	432,506	379,673
Equity share rights	16	-	-	61,349
Share premium account		3,737	3,968	3,405
Cumulative translation adjustment		74	5	4
Accumulated deficit		(201,474)	(200,961)	(199,868)
Total equity		**287,168**	**235,518**	**244,563**
Net liabilities and equity		**303,974**	**256,489**	**249,999**

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

The financial statements were approved by the Board of Directors and authorized for issue on August 5, 2011 and signed on its behalf:

Cameron Bailey, Director

Keith Hill, Director

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

	Share capital	Equity share rights	Share premium account	Cumulative translation adjustment	Accumulated deficit	Total
Balance at January 1, 2010	**379,673**	**61,349**	**3,405**	**4**	**(199,868)**	**244,563**
Total comprehensive loss for the period	-	-	-	(26)	(2,751)	**(2,777)**
Transactions with owners in their capacity as as owners:						
Share-based payments	-	-	415	-	-	**415**
Balance at June 30, 2010	**379,673**	**61,349**	**3,820**	**(22)**	**(202,619)**	**242,201**
Balance at January 1, 2011	**432,506**	**-**	**3,968**	**5**	**(200,961)**	**235,518**
Total comprehensive loss for the period	-	-	-	69	(513)	**(444)**
Transactions with owners in their capacity as as owners:						
Private placement	52,204	-	-	-	-	**52,204**
Transaction costs	(944)	-	-	-	-	**(944)**
Share-based payments	-	-	173	-	-	**173**
Share options exercised	1,065	-	(404)	-	-	**661**
	52,325	-	(231)	-	-	**52,094**
Balance at June 30, 2011	**484,831**	**-**	**3,737**	**74**	**(201,474)**	**287,168**

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

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

	Note	Three months ended June 30, 2011	Three months ended June 30, 2010	Six months ended June 30, 2011	Six months ended June 30, 2010
Operating activities					
Net loss for the period from continuing operations		(932)	(2,702)	(392)	(1,912)
Adjustments for:					
Interest income		(168)	(74)	(277)	(140)
Foreign exchange gain / (loss)		(199)	1,764	(1,252)	70
Depreciation expense		56	29	108	55
Income tax		48	14	91	27
Share-based payment expense	17	114	161	173	415
Share of loss of associates	13	30	-	109	-
Capitalized expenses		(406)	-	(597)	-
Changes in trade and other receivables		(18)	274	(36)	(121)
Changes in other current assets		(335)	(65)	(604)	197
Changes in inventories		303	-	(560)	-
Changes in trade and other payables		5,447	(1,529)	7,727	(47)
Cash used in discontinued operations		(166)	(524)	(354)	(931)
Net cash inflows / (outflows) from operating activities		**3,774**	**(2,652)**	**4,136**	**(2,387)**
Investment activities					
Exploration, evaluation and other intangible assets		(23,324)	(5,357)	(28,327)	(8,615)
Property, plant & equipment		(565)	(88)	(602)	(128)
Investment in associate	13	(11,443)	-	(15,443)	-
Interest received on cash deposits		168	74	277	140
Cash provided by discontinued operations		-	-	-	277
Net cash outflows to investing activities		**(35,164)**	**(5,371)**	**(44,095)**	**(8,326)**
Financing activities					
Net proceeds on issuance of shares		51,865	-	51,921	-
Net cash inflows from financing activities		**51,865**	**-**	**51,921**	**-**
Effect of exchange rate changes on cash and cash equivalents		232	(1,792)	1,321	(96)
Change in cash and cash equivalents		**20,707**	**(9,815)**	**13,283**	**(10,809)**
Cash and cash equivalents, beginning of the period		51,260	62,571	58,684	63,565
Cash and cash equivalents, end of the period		**71,967**	**52,756**	**71,967**	**52,756**

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

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 2601 Oceanic Plaza, 1066 West Hastings Street, Vancouver, British Columbia V6C 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 & 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").

2. Basis of Preparation and adoption of IFRS

The Canadian Accounting Standards Board confirmed in February 2008 that International Financial Reporting Standards ("IFRS") will replace Canadian Generally Accepted Accounting Principles ("Canadian GAAP") for publicly accountable enterprises effective for financial periods commencing on or after January 1, 2011. In these financial statements the term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS.

Accordingly, these condensed consolidated interim financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including *International Accounting Standard 34, Interim Financial Reporting* and *IFRS 1, First-time Adoption of IFRS,* as issued by the International Accounting Standards Board ("IASB") and the IFRS Interpretations Committee*.*

The condensed consolidated interim financial statements have been prepared under the historical cost convention except for certain financial assets and financial liabilities including derivative instruments that are recognized at fair value through profit or loss. The preparation of interim 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 are based on IFRS issued and outstanding at the date these financial statements were approved for issuance by the Board of Directors. Any subsequent changes to IFRS that effect the Company's annual consolidated financial statements for the year ending December 31, 2011 could result in restatement of these interim condensed financial statements including transition adjustments recognized on the transition to IFRS.

These condensed consolidated interim financial statements should be read in conjunction with the Company's annual financial statements for the year ended December 31, 2010 prepared in accordance with Canadian GAAP. Disclosures of IFRS information for the year ended December 31, 2010 are included in note 5.

These condensed consolidated interim 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 $72.0 million of cash and cash equivalents as at June 30, 2011 to satisfy its obligations and finance its exploration & evaluation program in Kurdistan. Failure to meet these exploration & 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, the resources available will be sufficient for the Company and its subsidiaries to satisfy its contractual obligations and commitments under the agreed work program over the next 12 months and to continue as a going concern for the foreseeable future. The Company has a number of financing possibilities which it believes it would be able to pursue if and when required. Nevertheless the possibility remains that the Company's operations and the availability of additional finance could be significantly affected by adverse exploration and appraisal results, geopolitical events in the region, macroeconomic conditions or other risks.

3. Significant accounting policies

The preparation of these condensed consolidated interim financial statements prepared in accordance with IFRS resulted in changes to the accounting policies as compared with the most recent annual consolidated financial statements at December 31, 2010 prepared under Canadian GAAP. The accounting policies set out below have been applied consistently to all periods presented in these condensed consolidated interim financial statements and have been applied in preparing an opening IFRS balance sheet at January 1, 2010 for the purposes of the transition to IFRS. The impact of the transition to IFRS on the Company's reported financial position, financial performance and cash flows including the nature of significant changes in accounting policies from those used in the Company's consolidated financial statements for the year ended December 31, 2010 is included in note 5.

(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 a group 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.

(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.

(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 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.

(g) Exploration & evaluation costs and other intangible assets

Exploration & evaluation assets

The Company applies the full cost method of accounting for exploration & evaluation (E&E) costs in accordance with the requirements of *IFRS 6 Exploration for and Evaluation of Mineral Resources*. All costs of exploring and evaluating oil & gas properties are accumulated and capitalized to the relevant property contract area and are tested on a cost pool basis as described below.

Pre-license costs:

Costs incurred prior to having obtained the legal rights to explore an area are expensed directly to the statement of comprehensive income.

Exploration & evaluation costs:

All E&E costs are initially capitalized as E&E assets and include payments to acquire the legal right to explore, costs of technical services and studies, seismic acquisition, exploratory drilling and testing.

Tangible assets used in E&E activities such as the Company's vehicles, drilling rigs, seismic equipment and other property, plant & equipment ("PP&E") used by the Company's exploration function are classified as PP&E. To the extent that such tangible assets are consumed in exploring and evaluating a property the amount reflecting that consumption is recorded as part of the cost of the intangible asset. Such intangible costs include directly attributable overhead including the depreciation of PP&E utilized in E&E activities together with the cost of other materials consumed during the E&E phases such as tubulars and wellheads.

E&E costs are not depreciated prior to the conclusion of appraisal activities.

Treatment of E&E assets at conclusion of appraisal activities:

E&E assets are carried forward until a contractual area is capable of commercial development and are then assessed for impairment. The carrying value of the E&E assets after any impairment loss is then reclassified as oil & gas assets within PP&E. E&E assets that are not capable of commercial development remain capitalized at cost less accumulated amortization and are subject to the impairment test set out below. Such E&E assets are depreciated on a unit of production basis over the life of the commercial reserves attributed to the cost pool to which they relate.

Other intangible assets

Other intangible assets that have finite useful lives such as computer software licenses are measured at cost and amortized over their expected useful economic lives as follows:

- Computer software 3 years

(h) Property, plant & equipment ("PP&E")

Oil & gas assets

Oil & gas assets comprise of development and production costs for areas where technical feasibility and commercial viability have been established and include any E&E assets transferred after conclusion of appraisal activities as well as costs of development drilling, completion, gathering and production infrastructure, directly attributable overheads, borrowing costs capitalized, and the cost of recognizing provisions for future restoration and decommissioning. Oil and gas costs are accumulated separately for each contract area.

Depreciation of oil & gas assets:

Oil & gas assets are depreciated using the unit of production method based on proved and probable reserves using estimated future prices and costs and taking into account future development expenditures necessary to bring those reserves into production.

Other property, plant & equipment

Property, plant & equipment assets excluding oil & 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 amortization 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 year

(i) Impairment of non-financial assets:

E&E assets and oil & 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 & 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 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.

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, 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.

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 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 categories. 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 interest 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.
- 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 flows 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 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 amortization.

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 amortization 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 recognised as an expense when they are due.

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 condensed consolidated interim 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 condensed consolidated interim financial statements:

(a) Oil & gas reserves

The business of the Company is the exploration, oil & gas of oil & gas reserves in Kurdistan. Estimates of commercial oil & gas reserves are used in the calculations for impairment, depreciation and amortization and decommissioning provisions. Changes in estimates of oil & 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 March 2011, the Company commissioned an independent reserves and resources report from McDaniel & Associates to estimate the Company's reserves and resources at December 31, 2010. The reserves and resources estimates provided in the report were used in the calculations for impairment, depreciation and amortization and decommissioning provisions within these condensed consolidated interim 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, 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 & 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 notes 10 and 15.

(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 June 30, 2011 is shown in note 17.

5. Transition to IFRS

As stated in note 2, these condensed consolidated interim financial statements are for part of the period covered by the Company's first annual consolidated financial statements prepared in accordance with IFRS.

The accounting policies indicated in note 3 have been applied in preparing these condensed consolidated interim financial statements for the three and six months ended June 30, 2011, the comparative information for the three and six months ended June 30, 2010, the financial information for the year ended December 31, 2010 and the opening IFRS consolidated balance sheet on the transition date, January 1, 2010.

In preparing the opening IFRS consolidated balance sheet within these condensed consolidated interim financial statements the Company has adjusted amounts previously reported in accordance with Canadian GAAP within the comparative financial information for the three and six months ended June 30, 2011 and for the year ended December 31, 2010.

IFRS 1 First-time Adoption of International Financial Reporting Standards ("IFRS 1"), provides certain mandatory exceptions and optional exemptions for first-time adopters of IFRS. The Company has transitioned to IFRS in accordance with IFRS 1 and has chosen to apply no optional exemptions.

The following disclosures demonstrate and explain how the Company's financial position, financial performance and cash flows have been affected by the transition to IFRS from Canadian GAAP:

(a) Reconciliation of assets and liabilities previously reported under Canadian GAAP ("CGAAP") to IFRS is as follows:

		At December 31, 2010			At June 30, 2010			At January 1, 2010		
	Note 5(c)	CGAAP	Adj.	IFRS	CGAAP	Adj.	IFRS	CGAAP	Adj.	IFRS
Assets										
Non-current assets										
Exploration, evaluation and other intangible assets	i.	-	149,892	149,892	-	193,904	193,904	-	185,035	185,035
Property, plant & equipment	i.	150,222	(149,892)	330	194,122	(193,904)	218	185,180	(185,035)	145
Investments in associate		44,282	-	44,282	-	-	-	-	-	-
		194,504	**-**	**194,504**	**194,122**	**-**	**194,122**	**185,180**	**-**	**185,180**
Current assets										
Other current assets	iii.	447	-	447	407	-	407	609	(233)	376
Inventories		2,656	-	2,656	-	-	-	-	-	-
Short-term investments	iii.	-	-	-	79	(79)	-	79	(79)	-
Trade and other receivables	iii.	124	-	124	467	(314)	153	566	(535)	31
Cash and cash equivalents		58,684	-	58,684	52,756	-	52,756	63,565	-	63,565
		61,911	**-**	**61,911**	**53,709**	**(393)**	**53,316**	**64,819**	**(847)**	**63,972**
Assets associated with discontinued operations	iii.	**74**	**-**	**74**	**-**	**393**	**393**	**-**	**847**	**847**
Total assets		**256,489**	**-**	**256,489**	**247,831**	**-**	**247,831**	**249,999**	**-**	**249,999**
Liabilities										
Current liabilities										
Trade and other payables	iii.	5,156	-	5,156	3,477	(1,437)	2,040	3,903	(1,816)	2,087
Current tax liabilities		103	-	103	39	-	39	12	-	12
Deferred consideration		12,643	-	12,643	-	-	-	-	-	-
Provisions	iii.	-	-	-	1,341	(1,341)	-	1,001	(1,001)	-
		17,902	**-**	**17,902**	**4,857**	**(2,778)**	**2,079**	**4,916**	**(2,817)**	**2,099**
Non-current liabilities										
Other long-term liabilities		-	-	-	423	-	423	170	-	170
Provisions	iii.	-	-	-	350	(350)	-	350	(350)	-
		-	**-**	**-**	**773**	**(350)**	**423**	**520**	**(350)**	**170**
Liabilities associated with discontinued operations	iii.	**3,069**	**-**	**3,069**	**-**	**3,128**	**3,128**	**-**	**3,167**	**3,167**
Total liabilities		**20,971**	**-**	**20,971**	**5,630**	**-**	**5,630**	**5,436**	**-**	**5,436**
Equity										
Share capital		432,506	-	432,506	379,673	-	379,673	379,673	-	379,673
Equity share rights		-	-	-	61,349	-	61,349	61,349	-	61,349
Share premium account	ii	3,867	101	3,968	3,678	142	3,820	3,360	45	3,405
Cumulative translation adj.		5	-	5	(22)	-	(22)	4	-	4
Accumulated deficit	ii	(200,860)	(101)	(200,961)	(202,477)	(142)	(202,619)	(199,823)	(45)	(199,868)
Total equity		**235,518**	**-**	**235,518**	**242,201**	**-**	**242,201**	**244,563**	**-**	**244,563**
Total liabilities and equity		**256,489**	**-**	**256,489**	**247,831**	**-**	**247,831**	**249,999**	**-**	**249,999**

(b) Reconciliation of comprehensive income as previously reported under Canadian GAAP ("CGAAP") to IFRS is as follows:

		Year ended December 31, 2010			Six months ended June 30, 2010			Three months ended June 30, 2010		
	Note 5(c)	**CGAAP**	**Adj.**	**IFRS**	**CGAAP**	**Adj.**	**IFRS**	**CGAAP**	**Adj.**	**IFRS**
Continuing operations										
General and administrative		(594)	-	(594)	(579)	-	(579)	(360)	-	(360)
Share based payments	ii	(514)	(56)	(570)	(318)	(97)	(415)	(114)	(47)	(161)
Depreciation expense		(139)	-	(139)	(55)	-	(55)	(29)	-	(29)
Share of loss of associate		(27)	-	(27)	-	-	-	-	-	-
Operating loss		**(1,274)**	**(56)**	**(1,330)**	**(952)**	**(97)**	**(1,049)**	**(503)**	**(47)**	**(550)**
Finance costs		(1,353)	-	(1,353)	(976)	-	(976)	(2,212)	-	(2,212)
Finance income		2,631	-	2,631	140	-	140	74	-	74
Net finance income / (costs)		**1,278**	**-**	**1,278**	**(836)**	**-**	**(836)**	**(2,138)**	**-**	**(2,138)**
Income / (loss) before inc. tax exp.		**4**	**(56)**	**(52)**	**(1,788)**	**(97)**	**(1,885)**	**(2,641)**	**(47)**	**(2,688)**
Income tax expense		(81)	-	(81)	(27)	-	(27)	(14)	-	(14)
Net loss from continuing operations		**(77)**	**(56)**	**(133)**	**(1,815)**	**(97)**	**(1,912)**	**(2,655)**	**(47)**	**(2,702)**
Discontinued operations										
Loss from discontinued operations		(960)	-	(960)	(839)	-	(839)	(728)	-	(728)
Net loss for the period		**(1,037)**	**(56)**	**(1,093)**	**(2,654)**	**(97)**	**(2,751)**	**(3,383)**	**(47)**	**(3,430)**
Other comprehensive income:										
Currency translation differences		1	-	1	(26)	-	(26)	(28)	-	(28)
Total other comprehensive inc.		**1**	**-**	**1**	**(26)**	**-**	**(26)**	**(28)**	**-**	**(28)**
Total comprehensive loss for the period		**(1,036)**	**(56)**	**(1,092)**	**(2,680)**	**(97)**	**(2,777)**	**(3,411)**	**(47)**	**(3,458)**
Earnings per share:										
Continuing operations										
Basic and diluted		-	-	-	-	-		(0.01)	-	(0.01)
Discontinued operations										
Basic and diluted		-	-	-	-	-		-	-	-
Continuing and discontinued ops.										
Basic and diluted		-	-	-	-	-		(0.01)	-	(0.01)

(c) The following IFRS conversion adjustments have been adopted by the Company in order to present these condensed consolidated interim financial statements in accordance with IFRS.

i. In accordance with *IFRS 6 Exploration for and evaluation of Mineral Resources* the Company's accounting policy is to record as E&E assets those costs of exploring and evaluating oil & gas properties including payments to acquire the legal right to explore, costs of technical services and studies, seismic acquisition and exploratory drilling and testing. Under Canadian GAAP these costs were included within PP&E as petroleum properties. Accordingly, the conversion from Canadian GAAP to IFRS has increased intangible assets and reduced PP&E by $185.0 million at January 1, 2010, $193.9 million at June 30, 2010 and $149.9 million at December 31, 2010.

ii. *IFRS 2 Share-based payments* requires that the cost of equity-settled share-based payments granted to directors, employees and other third parties is expensed over the vesting period using the graded method of amortization rather than a straight-line method which was the method used by the Company under Canadian GAAP. As a result the conversion from Canadian GAAP to IFRS has increased the share premium account and reduced accumulated deficit at the date of transition by $45 and increased share based payment expenses by $47 and $97 for the three and six months ended June 30, 2010 and $56 for the year ended December 31, 2010.

iii. For the periods ended June 30, 2010 and January 1, 2010 the assets and liabilities associated with the Company's discontinued operations were not presented separately on the Canadian GAAP consolidated balance sheet. Under *IFRS 5 Non-current Assets Held for Sale and Discontinued Operations* the assets and liabilities associated with discontinued operations are presented separately from other assets and liabilities on the consolidated balance sheet and separate disclosure of the major classes of assets and liabilities should be included within the notes to the consolidated financial statements. Therefore current assets held by continuing operations have been decreased by $0.8 million at January 1, 2010 and $0.4 million at June 30, 2010, current liabilities held by continuing operations have been decreased by $2.8 million at January 1, 2010 and $2.8 million at June 30, 2010 and non-current liabilities held by continuing operations have been decreased by $0.4 million at January 1, 2010 and $0.4 million at June 30, 2010 in converting from Canadian GAAP to IFRS.

(d) The transition from Canadian GAAP to IFRS had no significant impact on cash flows generated by the Company over the reporting periods ended January 1, 2010, June 30, 2010 and December 31, 2010.

6. Business and geographical segments

The Company operates in one business segment, the exploration and development of oil & 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 10 for disclosure of the Company's discontinued operations.

7. Finance cost

	Three months ended June 30,		Six months ended June 30,	
	2011	**2010**	**2011**	**2010**
Guarantee fees	229	448	456	906
Foreign exchange loss	-	1,764	-	70
	229	**2,212**	**456**	**976**

Guarantee fees relate to a guarantee provided by Lundin Petroleum AB, a shareholder of the Company, to the KRG on behalf of the Company in respect of its minimum financial commitments and charged at a rate of 1.5% per annum (2010: 3% per annum) and payable semi-annually. Refer also to note 20 for related party disclosures.

For the three and six months ended June 30, 2010 the foreign exchange losses of $1.8 million and $0.1 million results primarily from holding cash and cash equivalents denominated in Canadian dollars while the Canadian dollar weakened during the reporting period against the United States dollar which is the reporting currency of the Company.

8. Finance income

	Three months ended June 30,		Six months ended June 30,	
	2011	**2010**	**2011**	**2010**
Interest income	168	74	277	140
Foreign exchange gain	199	-	1,252	-
	367	**74**	**1,529**	**140**

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

For the three and six months ended June 30, 2011 the foreign exchange gains of $0.2 million and $1.3 million 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.

9. Taxation

	Three months ended June 30,		Six months ended June 30,	
	2011	**2010**	**2011**	**2010**
Income tax expense	33	14	74	27
	33	**14**	**74**	**27**

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

10. Discontinued operations

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

	Three months ended June 30,		Six months ended June 30,	
	2011	**2010**	**2011**	**2010**
Expenses				
General and administrative, other	43	389	121	577
Asset retirement obligation	-	339	-	339
Operating loss	**43**	**728**	**121**	**916**
Gain on disposal of assets	**-**	**-**	**-**	**77**
Net loss attributable to discontinued operations	**43**	**728**	**121**	**839**

During the six months ended June 30, 2010 the remaining inventories in the United States from discontinued operations were sold for gross proceeds of $0.3 million resulting in a gain on asset disposals of $0.1 million.

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

	30 Jun 11	31 Dec 10
Assets		
Trade and other receivables	59	59
Other assets	20	15
	79	**74**
Liabilities		
Trade and other payables	546	1,378
Provision	2,295	1,691
	2,841	**3,069**
Net assets	**2,762**	**2,995**

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, agreed and estimated costs to abandon and reclaim the wells and facilities and the estimated timing of the costs to be incurred in future periods.

11. Intangible assets

	Exploration & evaluation assets	Other intangible assets	Total
At January 1, 2010			
Cost	184,953	84	185,037
Accumulated depreciation	-	(2)	(2)
Net book value	**184,953**	**82**	**185,035**
For the year ended December 31, 2010			
Opening net book value	184,953	82	185,035
Additions	26,088	186	26,274
Release of rights to equity shares	(61,349)	-	(61,349)
Depreciation expense	-	(61)	(61)
Exchange differences	-	(7)	(7)
Net book value	**149,692**	**200**	**149,892**
At December 31, 2010			
Cost	149,692	270	149,962
Accumulated depreciation	-	(70)	(70)
Net book value	**149,692**	**200**	**149,892**
For the six months ended June 30, 2011			
Opening net book value	149,692	200	149,892
Additions	29,904	32	29,936
Depreciation expense	-	(57)	(57)
Exchange differences	-	(2)	(2)
Net book value	**179, 596**	**173**	**179,769**
At June 30, 2011			
Cost	179,596	302	179,898
Accumulated depreciation	-	(129)	(129)
Net book value	**179,596**	**173**	**179,769**

The Production Sharing Contracts ("PSCs") governing the Company's petroleum properties in Kurdistan allow the Company to include within petroleum costs an annual exploration overhead charge calculated on a sliding scale percentage of annual exploration costs. The exploration overhead charge qualifies as recoverable petroleum costs under the term of the PSCs and will be recovered from a portion of available petroleum production (produced oil less royalty oil) in the future. Exploration overhead charges of $0.6 million were capitalized during the six months ended June 30, 2011 and $0.2 million for the year ended December 31, 2010. The cumulative total exploration overhead charge included in intangible E&E assets was $1.4 million at June 30, 2011 and $0.8 million at December 31, 2010.

In May 2011 the Company paid $10 million and agreed to an additional $3 million contingent payment in connection with the termination of a certain participation option previously granted to a third party.

In August 2010 the Company executed agreements with the Kurdistan Regional Government ("KRG") to amend the Pulkhana Block 10 and the Arbat Block PSCs relieving the Company of its previous contractual requirement to issue 150 million common shares of the Company to the KRG. As a result during 2010 an adjustment was made to reduce the carrying value of the Company's petroleum properties by $61,349,000 representing the amount previously capitalized in relation to this right to receive equity shares. Refer also to note 16.

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

12. Property, plant & equipment

	Oil & Gas equipment	Computer equipment	Furniture and office equipment	Total
At January 1, 2010				
Cost	-	121	29	150
Accumulated depreciation	-	(4)	(1)	(5)
Net book value	**-**	**117**	**28**	**145**
For the year ended December 31, 2010				
Opening net book value	-	117	28	145
Additions	-	82	189	271
Depreciation expense	-	(55)	(23)	(78)
Exchange differences	-	(7)	(1)	(8)
Net book value	**-**	**137**	**193**	**330**
At December 31, 2010				
Cost	-	203	217	420
Accumulated depreciation	-	(66)	(24)	(90)
Net book value	**-**	**137**	**193**	**330**
For the six months ended June 30, 2011				
Opening net book value	-	137	193	330
Additions	507	39	19	565
Depreciation expense	(65)	(45)	(25)	(135)
Exchange differences	-	(1)	-	(1)
Net book value	**442**	**130**	**187**	**759**
At June 30, 2011				
Cost	507	242	236	985
Accumulated depreciation	(65)	(112)	(49)	(226)
Net book value	**442**	**130**	**187**	**759**

13. Investment in associate

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

The total consideration exchanged for the investment in GEP was $45.1 million comprised of cash payments totaling $24.3 million, share consideration of $5.0 million representing 12.5 million shares of the Company and an obligation to contribute the next $15.8 million in cash required to fund GEP's oil exploration and development operations which will be repaid on a first in first out basis from a portion of available petroleum production in the future. During the six months ended June 30, 2011 the Company completed payment of this obligation. The investment has been accounted for using the equity method.

The Company's investment in GEP included in the balance sheet is explained as follows:

	30 Jun 11	31 Dec 10
Cumulative cash contributions	42,802	27,360
Common share contribution	5,000	5,000
Deferred consideration	-	12,643
Acquisition costs	204	204
Share of net losses since acquisition	(135)	(27)
Recovery of costs from partner	(898)	(898)
Total investment in associate	**46,973**	**44,282**

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

	Three months ended June 30,		Six months ended June 30,	
	2011	**2010**	**2011**	**2010**
Total loss of associate	(89)	-	(325)	-
Company's 33.5% share of loss of associate	**(30)**	**-**	**(109)**	**-**

14. Trade and other payables

	30 Jun 11	31 Dec 10
Trade accounts payable	12,807	5,142
Net payables to joint venture partners	76	14
Total trade and other payables	**12,883**	**5,156**

The trade accounts payable balance at June 30, 2011 includes charges directly related to the exploration activities in the amounts of $7.7 million in the Pulkhana Block, $0.6 million in the Arbat Block and $4.5 million in other charges related to other exploration and corporate activities.

15. Provisions

The Company has provided for decommissioning and site restoration costs in relation to the exploration and appraisal activities undertaken to date on interests in production sharing contracts in the Kurdistan Region of Iraq.

	30 Jun 11	31 Dec 10
At January 1, 2011; 2010	-	-
Additions to provision for the period	888	-
Total decommissioning and site restoration costs	**888**	**-**

16. 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, 2010	**499,546,088**	**379,673**
Corporate acquisition	12,500,000	5,000
Private placement, net of issuance costs	111,111,106	47,813
Share options exercised	25,000	20
Balance at December 31, 2010	**623,182,194**	**432,506**
Private placement, net of issuance costs	56,000,000	51,260
Share options exercised	1,301,666	1,065
Balance at June 30, 2011	**680,483,860**	**484,831**

Equity share rights

In August 2010 the Company executed agreements with the Kurdistan Regional Government to amend the Pulkhana Block 10 and the Arbat Block PSCs. The amendments relieve the Company of its previous contractual requirement to issue 150 million common shares of the Company to the KRG which was comprised of 100 million shares due on signature of the PSCs plus a further 50 million shares due 30 days prior to the expiry of the first exploration sub-period in the Pulkhana Block. In exchange the amendments require the Company 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. Accordingly the amount previously recognized as equity share rights of $61,349,000 was reversed with a corresponding decrease to the cost of the Company's E&E assets. Refer also to note 11.

17. Share-based payments

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 stock 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.

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, 2010	**4,110,000**	**0.82**
Granted	1,390,000	0.51
Exercised	(25,000)	0.48
Cancelled/forfeited	(915,000)	1.20
Outstanding at December 31, 2010	**4,560,000**	**0.65**
Exercised	(1,301,666)	0.49
Cancelled/forfeited	(50,000)	0.43
Outstanding at June 30, 2011	**3,208,334**	**0.72**

The cancelled/forfeited options during the six months ended June 30, 2011 were held by an employee who resigned from the Company.

Share options exercisable:		
At January 1, 2010	2,245,000	0.82
At December 31, 2010	3,155,000	0.69
At June 30, 2011	2,111,670	0.79

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:

	2011	2010
Expected dividend yield	0%	0%
Risk-free interest rate (weighted average)	3.21%	3.21%
Expected stock price volatility (weighted average)	86.95%	86.95%
Expected option life in years (weighted average)	4.11	4.11
Grant date fair value (weighted average)	CAD 0.36	CAD 0.37

Stock option compensation expense for the three and six months ended June 30, 2011 was $114 (2010: $161) and $173 (2010: $415).

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.

18. 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 June 30, 2011, the Company 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 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.

All modifications to the PSC's are subject to the approval of the KRG.

(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 to acquire 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.

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.

The Company has fulfilled all its obligations under the K42 Option Agreement by acquiring and processing 2D seismic data in Block K42 in May 2010. In addition the Company has exercised its option to enter into a Production Sharing Contract and approval from the KRG was pending at the date of the balance sheet. Refer also to note 21.

19. Financial instruments

Financial assets

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

		Loans and receivables		Available-for-sale investments	
	Note	**30 Jun 11**	**31 Dec 10**	**30 Jun 11**	**31 Dec 10**
Current assets					
Trade and other receivables		160	124	-	-
Other current assets, excluding prepaid expense		94	91	-	-
Cash and cash equivalents		71,967	58,684	-	-
Financial assets associated with discontinued operations	10	59	59	-	-
Total financial assets		**72,280**	**58,958**	**-**	**-**

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.

Financial assets associated with discontinued operations at June 30, 2011 include trade and other receivables of $59. Refer to note 10 for additional disclosure on discontinued operations.

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 explained as follows:

	Note	30 Jun 11	31 Dec 10
Current financial liabilities			
Trade and other payables		12,883	5,156
Current tax liabilities		194	103
Deferred consideration	13	-	12,643
Financial liabilities associated with discontinued operations	10	2,841	3,069
Total financial liabilities		**15,918**	**20,971**

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. All financial liabilities have been classified as current as payment is expected within the next twelve months.

20. Related party transactions

	Purchases of services Three months ended June 30,		Purchases of services Six months ended June 30,		Amounts owing (due from) as at:	
	2011	2010	2011	2010	June 30, 2011	December 31, 2010
Namdo Management Services Ltd.	109	32	176	87	(13)	1
Mile High Holdings Ltd.	-	215	31	215	-	-
McCullough O'Connor Irwin LLP	39	21	44	40	44	12
Vostok Naphta Investment Ltd.	3	-	3	-	-	-
Lundin Petroleum AB	723	752	1,335	1,593	396	454
Total	**874**	**1,020**	**1,589**	**1,935**	**427**	**467**

Namdo Management Services Ltd. is a private corporation owned by a shareholder of the Company which has provided corporate administrative support and investor relation services to the Company.

Mile High Holdings Ltd. is a private corporation associated with a shareholder of the Company which has provided transportation services to the Company in relation to its fundraising activities.

McCullough O'Connor Irwin LLP is a law firm in which an officer of the Company is a partner which has provided legal services to the Company.

Vostok Naphta Investment Ltd. is a corporation traded on the NASDAQ OMX Nordic Exchange in Stockholm (trading symbol VNIL SDB) associated with a shareholder of the Company and which has provided investor relations services to the Company in relation to its fundraising activities in Sweden.

The Company receives services from various subsidiary companies of Lundin Petroleum AB ("Lundin"), a shareholder of the Company. Lundin charges during the three and six months ended June 30, 2011 of $723 (2010: $752) and $1,335 (2010: $1,593) were comprised of G&G and other technical service costs of $47 (2010: $52) and $68 (2010: $124), reimbursement for Company travel and related expenses of $331 (2010: $140) and $609 (2010: $333), office rental, administrative and building services of $116 (2010: $112) and $200 (2010: $230), and $229 (2010: $448) and $458 (2010: $906) relating to a guarantee provided to the KRG on behalf of the Company in respect of its minimum financial commitments, charged at a rate of 1.5 % per annum (2010: 3.0%) and payable semi-annually.

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

21. Events after the balance sheet date

On July 26, 2011 the Company entered into a Production Sharing Contract ("PSC") in respect of the Taza Block (formerly Block K42) in the Kurdistan Region of Iraq. Pursuant to the PSC the Company will pay $25 million to the KRG comprised of a $20 million capacity building bonus and $5 million in respect of local community development projects.

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