ShaMaran Petroleum Corp

Annual Report

For the year ended December 31, 2011

SHAMARAN PETROLEUM CORP.

MANAGEMENT DISCUSSION AND ANALYSIS
For the year ended December 31, 2011
(Expressed in United States Dollars unless otherwise indicated)

Management's discussion and analysis ("MD&A") of the financial and operating results of ShaMaran Petroleum Corp. ("ShaMaran" together with its subsidiaries the "Company") is prepared as of March 28, 2012. The MD&A should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2011 together with the accompanying notes. Unless otherwise stated herein all monetary amounts are expressed in US dollars ("USD").

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as required for Canadian public listed entities with year ends beginning on or after January 1, 2011. In reporting periods prior to the year 2011 the Company's financial statements were prepared under Canadian generally accepted accounting principles.

Overview

ShaMaran is a Canadian-based oil and gas company with interests in two petroleum properties located in Kurdistan in Northern Iraq ("Kurdistan"). The Company is currently in the pre-production stages of its exploration and development program relating to the petroleum properties. ShaMaran trades on the TSX Venture Exchange and the NASDAQ OMX First North Exchange (Stockholm) under the symbol "SNM".

Highlights

- A major oil discovery in the Atrush Block was announced by the Company on April 13, 2011. The Atrush 1 well flowed at rates totalling over 6,393 bopd of 26.5 API oil from three tests in the Middle and Upper Jurassic reservoirs and well analysis indicated that the intervals are capable of much higher rates when completed for production. The well was drilled in budget and on time to a total depth of 3,400 meters.
- The Appraisal Work Programme and Budget on the Atrush Block has been submitted to the KRG. The Programme consists of 3D seismic and a number of appraisal wells and studies. 3D seismic acquisition is in progress and the construction of the location for the Atrush-2 appraisal well is underway with drilling operations planned to commence in May 2012. Planning for an Early Production facility to conduct a long term test in the field is also underway.
- The Company's 100% owned subsidiary ShaMaran Petroleum BV entered into a production sharing contract ("PSC") on July 27, 2011 in respect of the Taza Block (formerly Block K42) in the Kurdistan Region of Iraq. ShaMaran holds a 20% working interest in the PSC, and Oil Search Iraq Limited ("OSIL") is the operator with a 60% working interest in the PSC. The Kurdistan Regional Government of Iraq ("KRG") holds a 20% working interest in the PSC with costs carried by ShaMaran and OSIL. Planning is underway for an exploration well with drilling operations expected to commence near the end of the second quarter of 2012.
- Operations were discontinued in December 2011 in Pulkhana after disappointing testing results from the Pulkhana 9 well. On January 17, 2012 the Company signed a final binding agreement with the KRG to relinquish to the KRG the 60% working interests previously held in each of the Arbat and Pulkhana Production Sharing Contracts.

- In February 2012 the Company received a Detailed Property Report ("the Report") from its third party auditors, McDaniel & Associates Consultants Ltd. The Report includes 124,782 Mboe as best estimate of *Gross Estimated Contingent Resources* and 87,910 Mboe as the unrisked best estimate of *Gross Estimated Prospective Resources* net to ShaMaran for the Company's two assets. These estimates are exclusive of amounts relating to the Pulkhana and Arbat Blocks which were relinquished in January 2012.
- Cash proceeds of $CAD 51.0 million were raised by the Company ($CAD 49.7 million net of issuance costs) through a private placement of 127.5 million common shares at $CAD 0.40 per share which was concluded on November 15, 2011. In May 2011 the Company raised cash proceeds of $CAD 50.4 million ($CAD 49.5 million net of issuance costs) through a private placement of 56 million common shares at $CAD 0.90 per share which was concluded on May 5, 2011.
- The cash balance of the Company was $49.1 million as at December 31, 2011.

Operations in Kurdistan

The Company had at December 31, 2011 direct working interests in each of the Pulkhana Block, the Arbat Block and the Taza Block (formerly Block K42) and an indirect interest in the Atrush Block. All petroleum properties are located in Kurdistan within the northern extension of the Zagros Folded Belt. The area is currently undergoing a major exploration and development campaign by over 40 mid to large size international oil companies.

On January 17, 2012 ShaMaran signed a final binding agreement with the KRG to relinquish to the KRG the 60% working interests which it then held in each of the Arbat and Pulkhana Production Sharing Contracts ("PSC"). Under the terms of the agreement the PSC for each of the Pulkhana and Arbat blocks was terminated whereby ShaMaran's interests in both PSCs are relinquished. This asset realignment relieved the Company from the remaining work program obligations of Pulkhana and Arbat blocks, and allows ShaMaran to focus its activities and resources on the Atrush and Taza Blocks, which the Company considers to be their most prospective blocks.

Atrush Block

The Atrush Block is located approximately 85 km northwest of Erbil, the capital of the Kurdish administered part of Iraq, and is 269 square kilometers in area. The topography is similar to the Shaikan Block to the south which had a major discovery reported by Gulf Keystone Petroleum Ltd in January 2010. Immediately to the north of the Atrush Block is the Sarsang block where Hillwood International Energy also made an oil discovery in the Swara Tika-1 well. The structures located on the Block contain multiple stacked oil reservoirs in the Cretaceous, Jurassic and Triassic sections and due to a high-degree of fracturing are capable of high production rates.

In August 2010 the Company acquired a 33.5% shareholding in General Exploration Partners Inc ("GEP"). GEP is the operator of the Atrush Block PSC, holding an 80% working interest in the Block, with the remaining 20% third party interest ("TPI") being held by the KRG. In October 2010, Marathon Oil Corporation was assigned the 20% TPI.

Under the terms of PSC the KRG has the option of participating as a Contractor Entity with an undivided interest in the petroleum operations and all the other rights, duties, obligations and liabilities of the Contractor in the PSC, of up to 25% and not less than 5%. If this option is exercised, the government will become liable for their share of the petroleum costs incurred on or after the first commercial declaration date. Fiscal terms under the PSC include a 10% royalty, a variable profit split, based on a percentage share to the KRG and a capacity building payment equal to 30% of profit oil (produced oil, less royalty and cost oil) to be paid to the KRG. GEP has the right to recover costs using up to 40% of the available oil (produced oil less royalty oil) and 55% of the produced gas.

GEP acquired 143 km of 2D seismic data (covering the Atrush Block) data in 2008. The first exploration well on the Atrush Block was spudded on October 5, 2010 and a total depth of 3,400 meters was reached on January 21, 2011. A comprehensive well testing program consisting of ten drill stem tests (DSTs) commenced on January 30, 2011 and was completed on the April 3, 2011. Following notification to the KRG of a major Jurassic oil discovery on the April 4, 2011 the operator GEP submitted an Appraisal Work Program which consists of 3D seismic, appraisal wells and studies leading to the possible installation of an Early Production facility in 2012 to conduct a long term test in the field. 3D seismic acquisition operations commenced on the block in July 2011 and planning for the Atrush-2 well is currently in progress, with the well location under construction.

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

Taza Block (formerly Block K42)

Taza Block located is a 511 square kilometer exploration area located in the South of Kurdistan immediately northeast of the Pulkhana Block and on trend with the giant producing Jambur field situated to the north west of the Block. The producing Jambur field has estimated oil reserves in excess of one billion barrels and is connected to export infrastructure.

The Company's 100% owned subsidiary ShaMaran Petroleum BV entered into a production sharing contract ("PSC") on July 27, 2011 in respect of the Taza Block. ShaMaran holds a 20% working interest in the PSC, and Oil Search Iraq Limited ("OSIL") is the operator with a 60% working interest in the PSC. The Kurdistan Regional Government of Iraq ("KRG") holds a 20% working interest in the PSC with costs carried by ShaMaran and OSIL. The Company had previously been a party to an option agreement in respect of the Taza Block with the KRG and OSIL. ShaMaran and OSIL exercised their option to convert that agreement into the PSC.

The acquisition of 232 line-kilometers of 2D seismic data was concluded in May 2010 and identified a significant 90 square kilometer four-way dip closed structure, with structural relief of between 150 and 300m. This closure lies on the structural trend between the Jambur field and the Western Zagros Sarqala oil discovery to the south (with reported test rates of over 9,000 barrels of oil per day from the Jeribe formation). The Jeribe will be one of the main targets for the upcoming exploration well on the identified prospect which is in the planning phase with drilling operations expected to commence near the end of the second quarter of 2012.

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

Pulkhana Block

Operations were discontinued in the Pulkhana block after disappointing test results from the Pulkhana 9 well. The Pulkhana Block PSC was fully relinquished to the KRG with an effective date of January 17, 2012.

The Pulkhana Block is a 529 square kilometer appraisal/development area located in southern Kurdistan.

Prior to relinquishing this PSC the Company was the operator of the project with a 60% undivided interest in the production sharing contract. Petoil Petroleum and Petroleum Products International Exploration and Production Inc. retained a 20% interest in the PSC and the KRG holds the remaining 20%. The Company was required to pay 100% of the minimum financial commitment in respect of the first exploration phase, following which the Company would pay 75% of the forward costs.

Pulkhana-9 was spudded by the Company on April 3, 2011 and a total depth of 2,333 meters was reached on July 23, 2011. A comprehensive testing program of six well tests ("DST") recovered oil from four separate reservoir intervals, including two new reservoirs that predrilling had not been recognized as having resource potential. Due to the inability to obtain sustained flow rates the Company opted to sidetrack the well targeting the lower two zones (Shiranish and Balambo formations) using open hole "barefoot" testing. The well was sidetracked successfully, however the targeted formations flowed only limited quantities of oil to surface during open hole testing.

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

Arbat Block

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

The Arbat Block (formerly Block G) is a 973 square kilometer exploration area located in eastern Kurdistan.

Prior to relinquishing this PSC the Company was the operator of the project and held a 60% undivided interest in the PSC with the KRG holding a 20% interest and the remaining 20% a third party interest which the KRG has the option to assign to a third party or parties. The Company was required to pay 100% of the minimum financial commitment in respect of the first exploration sub period or until such time as the KRG’s reserved 20% interest has been sold following which the Company would pay 75% of the forward costs and receive a reimbursement for 25% of the costs incurred to that date.

Fiscal terms under the PSC include a 10% royalty, a variable profit split, based on a percentage share to the KRG and a capacity building payment equal to 20% of the Company’s profit oil share (produced oil, less royalty and cost oil) to be paid to the KRG. The Company has the right to recover costs using up to 45% of the available crude oil (produced oil less royalty oil) and 53% of the produced gas.

During the year 2011 the Company had initiated planning for the first well and had initiated an infill 2D seismic program in an attempt to establish a second drillable prospect. As a result of the decision to relinquish the PSC the seismic program was terminated December 22, 2011.

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

Selected Annual Information

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

($000s, except per share data)	For the year ended December 31,		
	2011	**2010**	**2009***
Continuing operations			
General and administrative expenses	(1,082)	(594)	(2,378)
Share-based payments	(264)	(570)	(546)
Depreciation and amortisation expense	(221)	(139)	(6)
Share of loss of associate	(271)	(27)	-
Impairment losses	(207,504)	-	-
Finance cost	(1,777)	(1,353)	(636)
Finance income	518	2,631	5,253
Income tax	(137)	(81)	(12)
Net income / (loss) from continuing operations	(210,738)	(133)	1,675
Discontinued operations			
Net revenues	-	-	1,658
Expenses	(1,279)	(1,037)	(2,041)
Interest income	-	-	24
Gain loss on sale of assets	1,078	77	1,600
Net income / (loss) from discontinued operations	(201)	(960)	1,241
Net income/(loss)	(210,939)	(1,093)	2,916
Basic income / (loss), $ per share:			
Continuing operations	(0.31)	-	0.005
Discontinued operations	-	-	0.005
	(0.31)	-	0.01
Diluted income / (loss), $ per share:			
Continuing operations	(0.31)	-	0.005
Discontinued operations	-	-	0.005
	(0.31)	-	0.01
Total assets	151,239	256,489	249,999
Working capital surplus	29,798	44,009	59,903
Shareholders' equity	125,259	235,518	244,563
Common shares outstanding (x 1,000)	807,984	623,182	499,546

**The amounts for 2009 are presented in accordance with Canadian GAAP and have not been restated to conform to IFRS.*

Summary of principal changes in annual information

The Company spent $103 million on exploration and evaluation activities in 2011, its second full year of operations in Kurdistan, consisting primarily of drilling, workover and testing costs incurred on the Pulkhana 8 and Pulkhana 9 wells and a capacity building payment issued to the KRG associated with the signing of the Taza Block PSC. The Company recorded an expense in December 2011 of $207.5 million to provide for the impairment of exploration and evaluation, inventory, and property plant and equipment assets relating to the Pulkhana and Arbat Blocks which were ultimately relinquished to the KRG in January 2012. Also during the year 2012 the Company increased by $7.5 million its investment in GEP, the company operating the Atrush Block, primarily through cash contributions which were required to fund the work program and budget on the Atrush Block. To finance its 2011 operations the Company raised funds in May and November 2011 through the issuance of a total of 183.5 million shares for gross proceeds of $99.8 million ($98.7 million net of issuance costs). As a result of these developments the total assets and shareholders' equity reported at the end of the year 2011 have decreased relative to the amounts reported in 2010 while common shares outstanding have increased. The income and expenses of the Company are explained in detail below.

Results of Continuing Operations

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

General and Administrative Expenses

In $000	**For the year ended December 31,**	
	2011	**2010**
Salaries and benefits	3,623	2,526
Management and consulting fees	1,459	1,053
Sponsorship expense	1,025	485
General and other office expenses	1,159	416
Listing costs and investor relations	643	414
Travel expenses	413	327
Legal, accounting and audit fees	300	196
General and administrative expense incurred	8,622	5,417
Expenses and PSC overhead capitalized as E&E assets	(7,540)	(4,823)
Net general and administrative expenses	1,082	594

The Company capitalizes as E&E assets those general and exploration expenses incurred which relate to the operational aspects of the Company's E&E activities. In addition the PSCs governing the Company's petroleum properties in Kurdistan allow the operating company to include within petroleum costs an annual exploration overhead charge calculated on a sliding scale percentage of annual exploration costs. The exploration overhead charge qualifies as recoverable petroleum costs under the term of the PSCs and will be recovered from a portion of available petroleum production (produced oil less royalty oil) in the future.

The increase over the prior year G&A expenses incurred is due to the relative increase in current year technical and support required by the additional exploration operations on the Company's petroleum properties.

Share-Based Payments

In $000	For the year ended December 31,	
	2011	**2010**
Share-based payments	264	570

The share-based payments expense results from the vesting of stock options granted in the years from 2009 to 2011. A total of 25,000 stock options were granted during the year ended December 31, 2011 (2010: 1,390,000). The Company uses the fair value method of accounting for stock options granted to directors, officers, employees and consultants whereby the fair value of all stock options granted is recorded as a charge to operations. The fair value of common share options granted is estimated on the date of grant using the Black-Scholes option pricing model.

Depreciation and Amortisation

In $000	For the year ended December 31,	
	2011	**2010**
Depreciation and amortisation	221	139

Depreciation and amortisation corresponds to cost of use of the furniture and IT equipment at the Company's technical and administrative offices located in Switzerland and Kurdistan.

Share of loss of associate

In $000	For the year ended December 31,	
	2011	**2010**
Loss from investment in GEP	271	27

The loss relates to the Company's pro-rata portion of the net loss incurred by GEP in conducting exploration operations on the Atrush Block in Kurdistan. The Company acquired its 33.5% interest in GEP on August 27, 2010.

Impairment losses

In $000	For the year ended December 31,	
	2011	**2010**
Write down of inventory to net realizable value	1,243	-
Provision for impairment of exploration and evaluation assets	205,862	-
Write down of property plant and equipment to liquidation values	399	-
Total impairment losses	207,504	-

As a result of the suspension in December 2011 of all operations associated with the Pulkhana and Arbat Blocks, and the relinquishment of these PSCs completed on January 17, 2012, the Company has determined that at December 31, 2011 there was impairment in the value of the exploration and evaluation assets incurred in respect of these PSCs and of certain drilling inventory and property, plant and equipment items which would no longer be used in drilling programs associated with the Pulkhana and Arbat Blocks due to their cancellation.

Finance cost

In $000	For the year ended December 31,	
	2011	**2010**
Guarantee fees	915	1,353
Foreign exchange loss	862	-
Total finance cost	1,777	1,353

The Company has incurred fees in respect of a guarantee of the minimum financial obligations under the Pulkhana and Arbat PSCs. The guarantee which was provided to the KRG by a related company on behalf of ShaMaran became effective on August 29, 2009 and was charged at a rate of 3.0 % per annum up to June 30, 2010 and at 1.5% thereafter. Refer also to the discussions under "Commitments" and "Related Party Transactions" in this MD&A.

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

Finance income

In $000	**For the year ended December 31,**	
	2011	**2010**
Interest income	518	416
Foreign exchange gain	-	2,215
Total finance income	518	2,631

The foreign exchange gain in 2010 results primarily from holding cash and cash equivalents denominated in Canadian dollars while the Canadian dollar strengthened during the year against the United States dollar which is the reporting currency of the Company.

Interest income represents bank interest earned on cash and investments in marketable securities. The increase in the amounts reported in 2011 relative to the amount reported in the year 2010 is primarily due to higher interest rates received on the cash balances as well as higher average cash balances held throughout the year.

Income tax expense

In $000	**For the year ended December 31,**	
	2011	**2010**
Income tax expense	137	81

Income tax expense relates to provisions for income tax on service income generated in Switzerland. The amount reported in 2011 has increased relative to the amount reported in 2010 due to a higher tax base relating to the cost of additional services incurred to support the higher levels of exploration activity in the year 2011.

Results of Discontinued Operations

The main components of discontinued operations are explained as follows:

Expenses

In $000	For the year ended December 31,	
	2011	**2010**
Legal, accounting and audit fees	137	246
Management and consulting fees	3	308
General and other office expenses	61	144
Revision to asset retirement obligation	1,078	339
Total expenses	1,279	1,037

The revision to asset retirement obligation in 2011 relates to the provision for site restoration costs relating to the remaining interests the Company holds in petroleum properties located in the United States. The provision was determined based on the Company's remaining net ownership interest in the corresponding wells and facilities, estimated costs to abandon and reclaim the wells and facilities and the estimated timing of the costs to be incurred in future periods.

The decrease in fees and expenses in the year 2011 relative to the year 2010 is due to the reduction in activity associated with the Company's United States based operations following the sale in 2009 of substantially all of the properties located there. The decrease in fees and expenses in the year 2011 relative to the year 2010 is due to the reduction in activity associated with the Company's United States based operations following the sale in 2009 of substantially all of the properties located there. The legal, management and consulting fees which the Company continues to incur are related to the decommissioning and windup of its remaining properties and legal entities in the United States.

Gain on disposal of assets

In $000	For the year ended December 31,	
	2011	**2010**
Gain on asset disposal	1,078	77

The Company received in April 2011 a cash payment of $1,078 in respect of a 2009 agreement for the sale of petroleum properties located in the United States which allowed for a deferred purchase payment on the basis of proved reserves as defined at December 31, 2010. The gain of $77 reported in year 2010 relates to the disposal of all remaining inventories located in the United States.

Selected Quarterly Information

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

(In $000s, except per share data)	For the quarter ended							
	Dec 31 2011	**Sep 30 2011**	**Jun 30 2011**	**Mar 31 2010**	**Dec 31 2010**	**Sep 30 2010**	**Jun 30 2010**	**Mar 31 2010**
Continuing operations								
General and admin. (exp.) / recovery	(283)	202	(837)	(164)	628	(643)	(360)	(219)
Share-based payments	(21)	(70)	(114)	(59)	(83)	(73)	(161)	(254)
Depreciation and amortisation	(55)	(58)	(56)	(52)	(43)	(41)	(29)	(26)
Share of recovery / (loss) of associate	11	(173)	(30)	(79)	46	(73)	-	-
Impairment losses	(207,504)	-	-	-	-	-	-	-
Finance cost	(251)	(2,780)	(229)	(227)	9	(457)	(2,212)	(458)
Finance income	552	147	367	1,162	1,961	600	74	1,760
Income tax expense	(31)	(32)	(33)	(41)	(38)	(16)	(14)	(13)
Net inc. / (loss) from continuing ops.	(207,582)	(2,764)	(932)	540	2,480	(703)	(2,702)	790
Discontinued operations								
Expenses	(34)	(46)	(1,121)	(78)	(73)	(47)	(728)	(188)
Gain on sale of assets	-	-	1,078	-	-	-	-	77
Net from discontinued ops.	(34)	(46)	(43)	(78)	(73)	(47)	(728)	(111)
Net income / (loss)	(207,616)	(2,810)	(975)	462	2,407	(750)	(3,430)	679
Basic loss, $ per share:								
Continuing operations	(0.28)	-	-	-	-	-	-	-
Discontinued operations	-	-	-	-	-	-	-	-
	(0.28)	-	-	-	-	-	-	-
Diluted loss, $ per share:								
Continuing operations	(0.28)	-	-	-	-	-	-	-
Discontinued operations	-	-	-	-	-	-	-	-
	(0.28)	-	-	-	-	-	-	-

Summary of principal changes in fourth quarter information

In the fourth quarter of 2011 the Company completed drilling and testing the Pulkhana 9 well and the workover and testing of the Pulkhana 8 well and subsequently suspended all operations in respect the Pulkhana and Arbat Blocks. The net loss in the fourth quarter was primarily driven by the impairment losses associated with the decision to relinquish the Pulkhana and Arbat Blocks.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Outstanding Share Data

As of December 31, 2011 the Company had 807,983,860 shares outstanding and 3,233,334 stock options outstanding under its employee incentive stock option plan. No warrants were outstanding.

The Company concluded a private placement on November 15, 2011 and issued 127.5 million common shares at $CAD 0.40 per share for gross cash proceeds of $CAD 51.0 million ($CAD 49.7 million net of issuance costs).

On May 5, 2011 a private placement of an additional 56 million common shares at $CAD 0.90 per share resulted in total cash proceeds of $CAD 50.4 million ($CAD 49.5 million net of issuance costs).

During the year 2011 a quantity of 25,000 (2010: 1,390,000) share options were granted while cancellations of share options were 50,000 (2010: 915,000). A quantity of 1,301,666 (2010: 25,000) options were exercised during the year 2011 resulting in cash proceeds of $CAD 636 (2010: $CAD 12,000).

Related Party Transactions

In $000

	Purchases of services during the year		**Amounts owing as at December 31**	
	2011	**2010**	**2011**	**2010**
Namdo Management Services Ltd.	361	185	7	-
Mile High Holdings Ltd.	103	152	19	12
McCullough O'Connor Irwin LLP	56	41	14	-
Vostok Naphta Investment Ltd.	24	-	-	-
Lundin Petroleum AB	2,176	2,673	78	214
Total	**2,720**	**3,051**	**118**	**226**

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 year ended December 31, 2011 of $2,176 (2010: $2,673) were comprised of G&G and other technical service costs of $195 (2010: $382), reimbursement for Company travel and related expenses of $611 (2010: $601), office rental, administrative and building services of $455 (2010: $328) and $915 (2010: $1,362) relating to a guarantee provided to the KRG on behalf of the Company in respect of its minimum financial commitments, payable semi-annually and charged at a rate of 1.5 % per annum (3.0% prior to July 1, 2010).

Included within general and administrative expenses are contributions totalling $1,025 made in the year 2011 (2010: $485) to a charitable foundation whose Chairman is a major shareholder of the Company. Funds from this charity, in part, are used for community investment activity in Kurdistan.

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

Liquidity and Capital Resources

Working capital at December 31, 2011 totaled $29.8 million compared to $44.0 million at December 31, 2010.

The overall cash position of the Company decreased by $9.6 million during the year 2011 compared to an increase in cash of $4.9 million during the year 2010. The primary components of the movement in funds are discussed in the following paragraphs.

The operating activities of the Company during the year 2011 resulted in an increase in the cash position by $10.5 million compared to a decrease by $2.3 million in the year 2010. Increased trade payable balances are the primary reason for the increase in 2011 cash position due to operating activities.

Net cash used in investment activities during the year 2011 was $119.7 million compared to funds used in 2010 in the amount of $52.7 million. The main components of cash used was $100.1 million spending on E&E costs related to the Company's petroleum properties in Kurdistan, which included a payment to the KRG of $20 million as a capacity building bonus in respect of the Taza Block PSC, and $20.4 million in cash contributions to GEP to fund joint operations on the Atrush Block and to pay down the deferred purchase consideration which was outstanding at the end of the year 2010.

The Company received financing funds net of issuance costs amounting to $99.8 million during the year 2011 ($CAD 99.2 million) in respect of May and November private placements of a total of 183.5 million common shares of ShaMaran and an additional $661 in cash was received from the exercise of share options in the year 2011. During the year 2010 the Company received financing funds net of issuance costs of $47.8 million ($CAD 49.3 million) relating to the private placement in September of 111.1 million common shares of the Company.

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

The share based payments reserve decreased by $140 in the year 2011 because the value of stock options exercised during the year exceeded the issuance of share-based payments. In the year 2010 the share based payments reserve increased by $563 relating to the issuance of share-based payments. When options are granted the Black-Scholes option value method is used to calculate a value for the stock options. When the options are exercised the applicable amounts of share based payments are transferred to share capital.

Commitments

Production Sharing Contracts

At December 31, 2011 the Company held direct and indirect interests in four production sharing contracts ("PSCs") which govern petroleum operations in the Atrush, Taza (formerly K42), Pulkhana and Arbat Block petroleum exploration and development properties located in Kurdistan.

The PSCs contemplate minimum financial commitments during the first exploration sub-period and also require the Contractor to fund certain community development, personnel, training, environmental, and technological assistance projects during the period over which the contracts are in effect. 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.

As at December 31, 2011, the Company the outstanding commitments of the Company were as follows:

In $000	**2012**	**2013**	**2014**	**Thereafter**	**Total**
General Exploration Partners Inc	27,002	-	-	-	27,002
Taza Block PSC	4,417	1,667	1,667	-	7,751
Pulkhana Block PSC (*see Note below)	30,000	-	-	-	30,000
Arbat Block PSC (*see Note below)	20,000	-	-	-	20,000
Office and other	125	-	-	-	125
Total commitments	**81,544**	**1,667**	**1,667**	**-**	**84,878**

* Note: The Company took the decision in December 2011 to relinquish to the KRG the Pulkhana and Arbat Block PSCs and immediately suspend all operations associated with those two PSCs. The relinquishment was subsequently completed in January 17, 2012 whereby the Company was released from any further obligation under these two PSCs in exchange for fees totaling $25 million which were paid to the KRG on January 25, 2012.

ShaMaran holds 33.5% of the issued shares of General Exploration Partners Inc ("GEP") which holds an 80% working interest in the Atrush Block PSC. Marathon Oil Corporation holds the remaining 20% interest with the KRG holding an option to acquire up to a 25% interest in the PSC prior to 180 days after declaration of a commercial discovery. GEP is responsible for 80% of the approved annual work program and budget within the appraisal period now in progress.

The Company currently holds a 20% working interest in the Taza PSC, and Oil Search Iraq Limited ("OSIL") is the operator with a 60% working interest in the PSC. The KRG holds a 20% working interest in the PSC with costs carried by ShaMaran and OSIL. The Company had previously been a party to an option agreement in respect of the Taza Block with the KRG and OSIL. ShaMaran and OSIL exercised their option on July 27, 2011 to convert that agreement into the PSC.

At December 31, 2011 the Company held at a 60% undivided interest in the Pulkhana Block PSC, Petoil Petroleum and Petroleum Products International Exploration and Production Inc ("Petoil") held a 20% interest and the remaining 20% was held by the Kurdistan Regional Government (the "KRG"). The Company was 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.

The Company held at December 31, 2011 a 60% undivided interest in the Arbat PSC, the KRG held a 20% interest and the remaining 20% was a third party interest which the KRG held the option to assign to a third party or parties. The Company was required to pay 100% of the minimum financial commitment in respect of the first exploration sub-period or until such time as the KRG's reserved 20% interest has been sold following which the Company would have paid 75% of the forward costs and receive a reimbursement for 25% of the costs incurred to that date.

Financial Instruments

The Company's financial instruments consist of cash, cash equivalents, short-term investments, accounts receivable, accounts payable, accrued expenses and net payable to joint venture partner.

Cash, cash equivalents and short-term investments are designated as held for trading and are therefore carried at fair value, with unrealized gains or losses recorded in interest income.

The fair values of cash, cash equivalents, accounts receivable, accounts payable, accrued expenses and net payable to joint venture partner approximate carrying values because of the short-term nature of these instruments. The fair values of short-term investments are determined directly by reference to quoted market prices.

The Company is exposed in varying degrees to a variety of financial instrument related risks.

Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company manages its credit risk through monitoring counterparty ratings and credit limits. The Company is mainly exposed to credit risk on its cash and cash equivalents and accounts receivable. To manage this risk the Company maintains its excess cash on account in instruments having a minimum credit rating of R-1 (mid) or better (as measured by Dominion Bond Rate Services) or the equivalent thereof according to a recognized bond rating service.

Accounts receivable are primarily from joint venture partners in the oil and gas industry and are subject to normal industry credit risks. Joint venture receivables are typically collected within one to two months of the joint venture bill being issued to the partner. The Company mitigates risks arising from joint venture receivables by obtaining partner approval of capital expenditures prior to starting a project.

Liquidity Risk

Liquidity risk is the risk that the Company will incur difficulties meeting its financial obligations as they become due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, without incurring unacceptable losses or risk harm to the Company's reputation.

The Company prepares annual capital expenditure budgets, which are regularly monitored and updated as considered necessary. The Company requires authorizations for expenditure on both operating and non-operating projects to further manage capital expenditures.

Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, commodity prices and interest rates, will affect the Company's net earnings or the value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing returns.

The significant market risk exposures to which the Company is exposed are foreign currency, commodity price and interest rate risks.

Foreign currency risk – The Company maintains a substantial portion of its cash in Canadian dollars; however, the Company's operations are conducted predominantly in United States dollars. The Company's operating results and cash flows are affected to varying degrees by the changes in the Canadian dollar relative to the United States dollar. The Company has not entered into any agreements or purchased any instruments to hedge possible currency risks.

Commodity price risk – The prices that the Company may receive for its crude oil and natural gas production may have a significant impact on its revenue and cash inflows from operating activities. Any significant price decline in commodity prices would adversely affect the amount of funds available for capital reinvestment purposes. At this time the Company does not use derivative financial instruments to manage its exposure to this risk.

Interest rate risk – The Company's bank accounts earn interest income at variable rates. The Company's future interest income is exposed to changes in short-term rates.

Uncertainty of title

Although the Company conducts title reviews prior to acquiring an interest in a property, such reviews do not guarantee or certify that an unforeseen defect in the chain of title will not arise that may call into question the Company's interest in the production sharing contracts. Any uncertainty with respect to one or more of the Company's production sharing contracts could have a material adverse effect on the Company's business, prospects and results of operations.

Risks and Uncertainties

The majority of ShaMaran's assets are located in Kurdistan. ShaMaran operates in areas which are under foreign governmental sovereignty and is therefore subject to political, economic, and other uncertainties associated with foreign operations, which include (but are not limited to) the exposure of the Company to changes in general government policies and legislation, change in the energy policies or in their administration, changes in fiscal terms of a production sharing contract with the government, inability to export the petroleum produced under contract, adverse determinations or rulings by governmental authorities, nationalization, currency fluctuations and devaluations, as well as risks of loss due to civil strife, acts of war, guerrilla activities and insurrections.

Political Issues

The political and security situation in Iraq is not settled and is volatile. There are outstanding political issues and differences between the various political factions in Iraq. These differences could adversely impact ShaMaran's interests in Kurdistan. In addition, certain borders of Kurdistan remain the subject of final determination, the result of which may have an adverse effect on ShaMaran's assets.

Legislative Issues

All contracts in Kurdistan are issued under the Oil and Gas Law of The Kurdistan Region - Iraq. No federal Iraqi legislation has been enacted by the Iraq Council of Ministers (Cabinet) and Council of Representatives (Parliament). The lack of legislation, or the enactment of federal legislation contradictory to Kurdistan Region legislation, could have a material adverse impact on ShaMaran's interests in the region.

Marketing, Markets and Transportation

The export of oil and gas from Kurdistan remains subject to uncertainties which could have an adverse impact on ShaMaran's ability to export and market such oil and gas. Further, ShaMaran's ability to market its oil and gas may also depend upon its ability to secure transportation and delivery, in view of related issues such as the proximity of its potential production to pipelines and processing facilities. Potential government regulation relating to price, quotas and other aspects of the oil and gas business could also have an adverse impact.

Exploration, Development and Production Risks

Oil and gas operations involve geological, technical and commercial risks. ShaMaran's success will depend on its ability to find, appraise, develop and commercially produce oil and gas resources and reserves. Future oil and gas exploration may involve risks relating to dry holes, wells which do not produce sufficient petroleum to return a profit after drilling, operating and other costs. In addition, operations can be effected by drilling hazards, environmental damage, and other field operating conditions which could adversely affect production and increase the cost of operations. Diligent operations can contribute to maximizing production rates over time but production delays and declines from normal field operating conditions cannot be eliminated and can adversely affect revenue and cash flow levels.

Project Risks

ShaMaran's ability to execute projects and market oil and gas will depend upon numerous factors beyond ShaMaran's complete control. Factors such as obtaining approvals from relevant authorities, issues relating to security in the area of operation, adverse legislation in Kurdistan and/or Iraq, the regulation of the oil and gas industry by various levels of government and governmental agencies in Kurdistan and/or Iraq could adversely impact the execution of ShaMaran's projects.

Substantial Capital Requirements

ShaMaran anticipates making substantial capital expenditures in the future for the acquisition, exploration, development and production of oil and gas reserves. ShaMaran's results will impact its access to the capital necessary to undertake or complete future drilling and development programs. ShaMaran's ability to access the equity or debt markets in the future may be affected by any prolonged market instability. There can be no assurance that debt or equity financing, or future cash (if any) generated by operations, would be available or sufficient to meet these requirements or for other corporate purposes or, if debt or equity financing is available, that it will be on terms acceptable to ShaMaran. The inability of ShaMaran to access sufficient capital for its operations could have a material adverse effect on ShaMaran's financial condition, results of operations and prospects.

Additional Funding Requirements

ShaMaran's cash balances may not be sufficient to fund its ongoing activities at all times. From time to time, ShaMaran may require additional financing in order to carry out its oil and gas acquisition, exploration and development activities. Failure to obtain such financing on a timely basis could cause ShaMaran to forfeit its interest in certain properties, miss certain acquisition opportunities and reduce or terminate its operations. ShaMaran's ability to access the equity or debt markets in the future may be affected by any prolonged market instability.

Dilution

ShaMaran may make future acquisitions or enter into financings or other transactions involving the issuance of securities of ShaMaran which may be dilutive to the existing shareholders.

Accounting Policies and Critical Accounting Estimates

Use of Estimates

The consolidated financial statements of the Company have been prepared by management using International Financial Reporting Standards ("IFRS"). In preparing financial statements, management makes informed judgments and estimates that affect the reported amounts of assets and liabilities as of the date of the financial statements and affect the reported amounts of revenues and expenses during the period. Specifically, estimates were utilized in calculating depletion, asset retirement obligations, share-based payments, amortisation and impairment write-downs. Actual results could differ from these estimates and differences could be material.

Accounting for Oil and Gas Operations

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

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

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

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

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

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

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

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

The Company engaged McDaniel & Associates Consultants Ltd ("McDaniel"), an independent geoscience consultancy firm, to evaluate 100% of the Company's reserves and resource data at December 31, 2011. The conclusions of this evaluation have been presented in a Detailed Property Report, which has been prepared in accordance with standards set out in the Canadian National Instrument NI 51-101 and Canadian Oil and Gas Evaluation Handbook (COGEH).

The Company's crude oil and natural gas contingent resources for all four of the Company's assets as of December 31, 2011 were estimated to be as follows:

COMPANY GROSS ESTIMATED CONTINGENT RESOURCES AS OF DECEMBER 31, 2011
MBBL, MMCF (1) (2) (3) (4)

	Low Estimate (1C)	Best Estimate (2C)	High Estimate (3C)	Mean (3) Estimate
Crude Oil (Mbbl)	82,276	143,618	257,315	159,388
Natural Gas (MMcf)	16,462	28,279	50,956	31,651
Total Company (Mboe)	85,020	148,331	265,807	164,663

(1) There is no certainty that it will be commercially viable to produce any portion of the resources.
(2) Company Gross resources are based on working interest share of the property gross resources.
(3) The statistical mean is provided in addition to the standard 1C, 2C and 3C resource categories.
(4) Based on arithmetic aggregation of the low (P90) and high (P10) estimates for the individual fields; statistically therefore the low (1C) estimate presented above has a greater than 90 percent chance of being exceeded and the high (3C) estimate has a lower than 10 percent chance of being exceeded.

The Company's crude oil, condensate and natural gas prospective resources for all four of the Company's assets as of December 31, 2011 were estimated to be as follows:

COMPANY GROSS ESTIMATED PROSPECTIVE RESOURCES AS OF DECEMBER 31, 2011
MBBL, MMCF (1) (2) (3) (4)

	Unrisked Low Estimate	Unrisked Best Estimate	Unrisked Mean Estimate	Unrisked High Estimate	Risked (2) Mean Estimate
Crude Oil (Mbbl)	58,351	133,935	165,327	310,185	70,401
Condensate (Mbbl)	2,801	6,912	8,868	17,108	4,840
Natural Gas (MMcf)	224,156	494,500	592,963	1,077,592	196,031
Total Company (Mboe)	98,512	223,264	273,022	506,892	107,912

(1) There is no certainty that any portion of the resources will be discovered. If discovered, there is no certainty that it will be economically viable or technically feasible to produce any portion of the resources.
(2) These are partially risked prospective resources that have been risked for chance of discovery, but have not been risked for chance of development.

(3) Based on arithmetic aggregation of the low (P90) and high (P10) estimates for the individual prospects; statistically therefore the low estimate presented above has a greater than 90 percent chance of being exceeded and the high estimate has a lower than 10 percent chance of being exceeded.
(4) Company Gross resources are based on working interest share of the property gross resources.

As the Pulkhana and Arbat Blocks were relinquished January 17, 2012 (after the effective date of McDaniel's report) the contingent and prospective resources excluding these blocks were summarized by McDaniels as follows:

COMPANY GROSS ESTIMATED CONTINGENT RESOURCES
EXCLUDING PULKHANA AND ARBAT BLOCKS
AS OF DECEMBER 31, 2011
MBBL, MMCF (1) (2) (3) (4) (5)

	Low Estimate (1C)	Best Estimate (2C)	High Estimate (3C)	Mean (3) Estimate
Crude Oil (Mbbl)	71,149	120,177	209,641	132,272
Natural Gas (MMcf)	16,243	27,630	49,379	30,846
Total Company (Mboe)	73,856	124,782	217,871	137,413

(1) These estimates are provided for information purposes only as they exclude Pulkhana and Arbat Blocks.
(2) There is no certainty that it will be commercially viable to produce any portion of the resources.
(3) Company Gross resources are based on working interest share of the property gross resources.
(4) The statistical mean is provided in addition to the standard 1C, 2C and 3C resource categories.
(5) Based on arithmetic aggregation of the low (P90) and high (P10) estimates for the individual fields; statistically therefore the low (1C) estimate presented above has a greater than 90 percent chance of being exceeded and the high (3C) estimate has a lower than 10 percent chance of being exceeded.

The Company's crude oil, condensate and natural gas prospective resources excluding the Pulkhana and Arbat Blocks as of December 31, 2011 were estimated to be as follows:

COMPANY GROSS ESTIMATED PROSPECTIVE RESOURCES
EXCLUDING PULKHANA AND ARBAT BLOCKS
AS OF DECEMBER 31, 2011
MBBL, MMCF (1) (2) (3) (4) (5)

	Unrisked Low Estimate	Unrisked Best Estimate	Unrisked Mean Estimate	Unrisked High Estimate	Risked (2) Mean Estimate
Crude Oil (Mbbl)	31,031	61,302	70,616	120,749	45,439
Condensate (Mbbl)	1,861	4,402	5,674	10,884	4,325
Natural Gas (MMcf)	60,739	133,235	166,635	312,564	126,554
Total Company (Mboe)	43,016	87,910	104,062	183,726	70,856

(1) These estimates are provided for information purposes only as they exclude Pulkhana and Arbat Blocks.
(2) There is no certainty that any portion of the resources will be discovered. If discovered, there is no certainty that it will be economically viable or technically feasible to produce any portion of the resources.
(3) These are partially risked prospective resources that have been risked for chance of discovery, but have not been risked for chance of development.
(4) Based on arithmetic aggregation of the low (P90) and high (P10) estimates for the individual prospects; statistically therefore the low estimate presented above has a greater than 90 percent chance of being exceeded and the high estimate has a lower than 10 percent chance of being exceeded.
(5) Company Gross resources are based on working interest share of the property gross resources.

The estimation of reserves and resources is subjective. Forecasts are based on engineering data, future prices, expected future rates of production and the timing of capital expenditures, all of which are subject to uncertainties and interpretations. The Company had no reserves at December 31, 2011.

The estimation of reserves and resources is subjective. Forecasts are based on engineering data, future prices, expected future rates of production and the timing of capital expenditures, all of which are subject to uncertainties and interpretations.

International Financial Reporting Standards

International Financial Reporting Standards ("IFRS") replaced Canadian GAAP for publicly accountable enterprises for with fiscal years commencing January 1, 2011. The Company has adopted IFRS for the interim and annual periods beginning on January 1, 2011 and has reported comparative information for the year 2010.

The overall impact of the adjustments to the balance sheet, statement of comprehensive income and statement of cash flows conversion from Canadian GAAP to IFRS is considered to be insignificant.

The following notes explain the adjustments made in converting from Canadian GAAP to 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 and 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 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 amortisation 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 based payments reserve and reduced accumulated deficit at the date of transition by $45 and increased share based payment expenses by $56 for the year ended December 31, 2010.

Information relating to the Company's accounting policies and transition to IFRS is included in notes 2, 3 and 5 of the Consolidated Financial Statements.

Outlook

The outlook for the year 2012 for the two blocks which the Company holds interests in Kurdistan is as follows:

Atrush Block

The operating company (GEP) had completed more than half of the planned 309 square kilometers for the 3D seismic acquisition program by the end of December 2011 when operations were suspended because of the winter weather. Operations to acquire the balance portion of the 3D Seismic will commence by the end of the first quarter 2012 and are likely to be completed by the end of second quarter 2012. The Atrush-2 well location is under construction and GEP is in the process of tendering for a rig for a planned commencement of drilling operations in May 2012.

Taza Block (Formerly Block K42)

Preparations for drilling the first Taza exploration well will continue over the coming months. The surface location of the well has been selected and civil engineering works for site access road and the site preparation are under way. The planned commencement of drilling operations is for the end of the second quarter of 2012.

New Ventures

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

Budget

The capital and operating budget approved by the Board of Directors for the year 2012 was for $80.6 million. The budget contains amounts relating to the work programs of the two Kurdistan petroleum properties, net to the Company, as follows: $29.3 million for the Atrush Block, $16.3 million for the Taza Block, combined relinquishment fees for the Pulkhana and Arbat Blocks of $25.0 million, $3.8 million in final costs to windup operations in Pulkhana and Arbat and $6.2 million in G&A support and corporate costs. The Company has a number of financing possibilities which will be pursued as required and is confident that it will obtain the resources sufficient to satisfy its contractual obligations and commitments under the agreed budgets.

General

The security situation in Kurdistan remains stable with no major reported incidents. The region is seeing a rapid development in infrastructure and a significant increase in the availability of oil and gas services in the country. Based on current reports oil exports from Kurdistan are now around 175,000 bopd. Several major international oil companies, most recently Exxon Mobil, have acquired properties in Kurdistan over the last two years. In addition, the KRG announced in May 2011 that KRG contractors would receive first payment for oil exports of around 50 percent (US$243 million) of net revenues derived from the export of over 5 million barrels of oil from the Kurdistan Region between the start of February 2011 and March 27 and on June 6 and September 21 one of the KRG contractors, DNO International ASA, confirmed that it had received payment for exports in the amounts of $103.7 million and 60.0 million, respectively. These are extremely positive developments for the region.

Forward-Looking Statements

This report contains forward-looking statements concerning anticipated developments on the Company's operations; the adequacy of the Company's financial resources; financial projections, including, but not limited to, estimates of capital and operating costs, production rates, commodity prices, exchange rates, net present values; and other events and conditions that may occur in the future. Forward-looking statements are frequently, but not always, identified by the words such as "expects," "anticipates," "believes," "intends," "estimates," "potential," "possible," "budget" and similar expressions, or statements that events, conditions or results "will," "may," "could," or "should" occur or be achieved. Information concerning the interpretation of drill results and reserve estimates also may be deemed to be forward-looking statements, as such information constitutes a prediction of what might be found to be present if and when a project is actually developed. Forward-looking statements are statements about the future and are inherently uncertain, and actual achievements of the Company or other future events or conditions may differ materially from those reflected in the forward-looking statements due to a variety of risks, uncertainties and other factors, including, without limitation, those described in this MD&A.

The Company's forward-looking statements are based on the beliefs, expectations and opinions of management on the date the statements are made and the Company assumes no obligation to update such forward-looking statements in the future. For the reasons set forth above, investors should not place undue reliance on forward-looking statements.

Additional Information

Additional information related to the Company is available on SEDAR at **www.sedar.com** and on the Company's web-site at **www.shamaranpetroleum.com**.

Auditor's Report

19 April 2012

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

We have audited the accompanying consolidated financial statements of ShaMaran Petroleum Corp, which comprise the consolidated balance sheet as at 31 December 2011, 31 December 2010 and 1 January 2010 and the Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity and Consolidated Statement of Cash Flow for the years ended 31 December 2011 and 31 December 2010, and the related notes including a summary of significant accounting policies.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

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Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated balance sheet of ShaMaran Petroleum Corp as at 31 December 2011, 31 December 2010 and 1 January 2010 and its financial performance and its cash flows for the years ended 31 December 2011 and 31 December 2010 in accordance with International Financial Reporting Standards.

Emphasis of matter – going concern

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

(Signed) "PricewaterhouseCoopers LLP"

Chartered Accountants, Licensed Public Accountants
London

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

	Note	For the year ended December 31, 2011	2010
Expenses from continuing operations			
General and administrative expenses	7	(1,082)	(594)
Share based payments	19	(264)	(570)
Depreciation and amortisation expense		(221)	(139)
Impairment losses	8	(207,504)	-
Share of loss of associate	15	(271)	(27)
Operating loss		**(209,342)**	**(1,330)**
Finance costs	9	(1,777)	(1,353)
Finance income	10	518	2,631
Net finance (costs) / income		**(1,259)**	**1,278**
Loss before income tax expense		**(210,601)**	**(52)**
Income tax expense	11	(137)	(81)
Net loss from continuing operations		**(210,738)**	**(133)**
Discontinued operations			
Loss from discontinued operations	12	(201)	(960)
Net loss for the year		**(210,939)**	**(1,093)**
Other comprehensive income:			
Currency translation differences		(23)	1
Total other comprehensive income / (loss)		**(23)**	**1**
Total comprehensive loss for the year		**(210,962)**	**(1,092)**
Earnings per share:			
Continuing operations			
Basic and diluted	18	(0.31)	-
Discontinued operations			
Basic and diluted	18	-	-
Continuing and discontinued operations			
Basic and diluted	18	(0.31)	-

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

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

	Note	December 31, 2011	December 31, 2010	January 1, 2010
Assets				
Non-current assets				
Intangible assets	13	45,836	149,892	185,035
Property, plant and equipment	14	382	330	145
Investment in associate	15	51,835	44,282	-
		98,053	**194,504**	**185,180**
Current assets				
Other current assets		647	447	376
Inventories	16	3,328	2,656	-
Other receivables		105	124	31
Cash and cash equivalents		49,085	58,684	63,565
		53,165	**61,911**	**63,972**
Assets associated with discontinued operations	12	**21**	**74**	**847**
Total assets		**151,239**	**256,489**	**249,999**
Liabilities				
Current liabilities				
Accounts payable and accrued expenses	17	23,245	5,156	2,087
Current tax liabilities		122	103	12
Deferred consideration	15	-	12,643	-
		23,367	**17,902**	**2,099**
Non-current liabilities				
Other long-term liabilities		-	-	170
		-	**-**	**170**
Liabilities associated with discontinued operations	12	**2,613**	**3,069**	**3,167**
Total liabilities		**25,980**	**20,971**	**5,436**
Equity				
Share capital	18	533,349	432,506	379,673
Equity share rights	13	-	-	61,349
Share based payments reserve		3,828	3,968	3,405
Cumulative translation adjustment		(18)	5	4
Accumulated deficit		(411,900)	(200,961)	(199,868)
Total equity		**125,259**	**235,518**	**244,563**
Total liabilities and equity		**151,239**	**256,489**	**249,999**

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

The amended financial statements were approved by the Board of Directors and authorized for issue on April 19, 2012 and signed on its behalf:

/s/Cameron Bailey

J. Cameron Bailey, Director

/s/Keith Hill

Keith C. Hill, Director

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

	Share capital	Equity share rights	Share based payments reserve	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 year	-	-	-	1	(1,093)	**(1,092)**
Transactions with owners in their capacity as as owners:						
Shares issued on acquisition	5,000	-	-	-	-	**5,000**
Private placement	48,492	-	-	-	-	**48,492**
Transaction costs	(679)	-	-	-	-	**(679)**
Share-based payments	-	-	570	-	-	**570**
Share options exercised	20	-	(7)	-	-	**13**
	52,833	-	563	-	-	**53,396**
Release of rights to equity shares	-	(61,349)	-	-	-	**(61,349)**
Balance at December 31, 2010	**432,506**	**-**	**3,968**	**5**	**(200,961)**	**235,518**
Total comprehensive loss for the year	-	-	-	(23)	(210,939)	**(210,962)**
Transactions with owners in their capacity as as owners:						
Private placements	101,953	-	-	-	-	**101,953**
Transaction costs	(2,175)	-	-	-	-	**(2,175)**
Share-based payments	-	-	264	-	-	**264**
Share options exercised	1,065	-	(404)	-	-	**661**
	100,843	-	(140)	-	-	**100,703**
Balance at December 31, 2011	**533,349**	**-**	**3,828**	**(18)**	**(411,900)**	**125,259**

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

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

	Note	For the year ended December 31, 2011	2010
Operating activities			
Net loss for the year from continuing operations		(210,738)	(133)
Adjustments for:			
Interest income		(518)	(416)
Foreign exchange loss / (gain)	9, 10	862	(2,215)
Depreciation and amortisation expense		221	139
Income tax		19	91
Impairment losses	8	207,504	-
Share-based payment expense	19	264	570
Share of loss of associates	15	271	27
Capitalized expenses		(1,656)	-
Changes in trade and other receivables		19	(93)
Changes in other current assets		(200)	(71)
Changes in inventories		(1,915)	(2,656)
Changes in accounts payable and accrued expenses		18,089	3,069
Cash used in discontinued operations		(1,682)	(562)
Net cash inflows / (outflows) from operating activities		**10,540**	**(2,250)**
Investing activities			
Exploration, evaluation and other intangible assets		(100,087)	(26,376)
Property, plant and equipment		(735)	(324)
Investment in associate		(20,467)	(26,666)
Interest received on cash deposits		518	416
Cash provided by discontinued operations		1,078	277
Net cash outflows to investing activities		**(119,693)**	**(52,673)**
Financing activities			
Proceeds net of costs on issuance of shares		100,439	47,826
Net cash inflows from financing activities		**100,439**	**47,826**
Effect of exchange rate changes on cash and cash equivalents		(885)	2,216
Change in cash and cash equivalents		**(9,599)**	**4,881**
Cash and cash equivalents, beginning of the year		58,684	63,565
Cash and cash equivalents, end of the year		**49,085**	**58,684**

The accompanying notes are an integral part of these consolidated 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 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").

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 consolidated financial statements have been prepared in accordance with IFRS applicable to the preparation of annual financial statements, including *IFRS 1, First-time Adoption of IFRS,* as issued by the International Accounting Standards Board ("IASB") and the IFRS Interpretations Committee.

In accordance with regulatory request the Company has amended these consolidated financial statements to present on the balance sheet the statement of financial position on the date of transition to IFRS, information which was disclosed in note 5 in the financial statements approved on March 28, 2012.

The consolidated financial statements have been prepared under the historical cost convention except for certain financial assets and financial liabilities that are recognized at fair value through profit or loss. The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies.

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

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

In the absence of current production revenues, the Company is currently dependent upon its existing financial resources which include $49.1 million of cash and cash equivalents as at December 31, 2011 to satisfy its obligations and finance its exploration and evaluation program in Kurdistan. Failure to meet these exploration and evaluation commitments could put the related license interests at risk of forfeiture.

The Company believes that based on the forecasts and projections they have prepared and a number of financing initiatives which will be pursued as required the Company and its subsidiaries will have sufficient resources to satisfy its contractual obligations and commitments under the agreed work program over the next 12 months. Although the Company is confident that it will be able to raise sufficient funds there is no assurance at the date these financial statements were approved that these financing initiatives will be successful. The lack of sufficient committed funding for the next 12 months indicates a material uncertainty which may cast significant doubt over the Company's ability to continue as a going concern. These consolidated financial statements do not include the adjustments that would result if the Company is unable to continue as a going concern. Refer also to note 23.

3. Significant accounting policies

The preparation of these consolidated financial statements in accordance with IFRS resulted in changes to the accounting policies as compared with the 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 consolidated 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 the Company undertakes its activities under joint venture arrangements directly, the Company's share of jointly controlled assets and any liabilities incurred jointly with other joint ventures are recognized in the financial statements of the relevant company and classified according to their nature.

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

(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 in which they were incurred as a reasonable approximation of the cumulative effect of rates prevailing on transaction dates; and
- All resulting exchange differences are recognized in other comprehensive income as part of the cumulative translation reserve.

Transactions and balances

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

(g) Exploration and evaluation costs and other intangible assets

Exploration and evaluation assets

The Company applies the full cost method of accounting for exploration and 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 and 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 and 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 and 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 and gas assets within PP&E. E&E assets that are not capable of commercial development remain capitalized at cost less accumulated amortisation 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 and equipment ("PP&E")

Oil and gas assets

Oil and 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 and gas assets:

Oil and 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 and equipment

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

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

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

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

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

(i) Impairment of non-financial assets:

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

- the period for which the Company has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed.
- substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned.
- exploration for and evaluation of resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the Company has decided to discontinue such activities in the specific area.

- sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the E&E asset is unlikely to be recovered in full from successful development or by sale.
- extended decreases in prices or margins for oil and gas commodities or products
- a significant downwards revision in estimated volumes or an upward revision in future development costs.

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

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

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

(j) Revenue recognition

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

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 and are recognized at fair value. Transaction costs are expensed in the statement of comprehensive income and gains or losses arising from changes in fair value are also presented in the statement of comprehensive income within other gains and losses in the period in which they arise. Financial assets and liabilities at fair value through profit or loss are classified as current except for the portion expected to be realized or paid beyond twelve months of the balance sheet date, which is classified as non-current.
- Available-for-sale investments are non-derivative financial instruments that are designated in this category or not classified in any other category. They usually comprise marketable securities and investments in debt and equity securities. Available-for-sale investments are initially recognized and subsequently measured at fair value. Gains and losses arising from changes in the fair value are recognized in other comprehensive income. Available-for-sale investments are classified as non-current unless the investment matures within the next twelve months or management expects to dispose of them within twelve months. Interest on available-for-sale investments is calculated using the effective interest method and is recognized in the statement of comprehensive income within 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 the time value of money at that date. Unwinding of the discount on the provision is charged to the statement of comprehensive income within finance costs during the period. The amount recognized as the provision is included as part of the cost of the relevant asset and is charged to the statement of comprehensive income in accordance with the Company's policy for depreciation and amortisation.

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

(p) Share-based payments

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

(q) Pension obligations

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

(r) Share capital

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

(s) Accounting standards issued but not yet applied

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

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

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

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

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

IAS 1: Presentation of Items of Other Comprehensive Income – In 2011, the IASB issued amendments to IAS 1 Presentation of Financial Statements to split items of other comprehensive income (OCI) between those that are reclassified to income and those that are not. The standard is required to be adopted for periods beginning on or after July 1, 2012.

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

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

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

4. Critical accounting judgments and key sources of estimation uncertainty

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

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

(a) Oil and gas reserves

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

In 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 amortisation and decommissioning provisions within these consolidated financial statements.

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

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

(c) Decommissioning and site restoration provisions

The Company recognizes a provision for decommissioning and site restoration costs expected to be incurred in order to remove and dismantle production, storage and transportation facilities and to carry out site restoration work. The provisions are estimated taking into consideration existing technology and current prices after adjusting for expected inflation and discounted using rates reflecting current market assessments of the time value of money and where appropriate, the risks specific to the liability. The Company makes an estimate based on its experience and historical data. Refer also to note 12.

(d) Share-based payments

The Company issues equity-settled share-based payments to certain directors, employees and third parties. In accordance with *IFRS 2 Share-based payments*, in determining the fair value of options granted, the Company has applied the Black-Scholes model and as a result makes assumptions for the expected volatility, expected life, risk-free rate, behavioral considerations and expected dividend yield. The fair value of options granted at December 31, 2011 is shown in note 19.

5. Transition to IFRS

The accounting policies indicated in note 3 have been applied in preparing these consolidated financial statements for the year ended December 31, 2011, the comparative information for 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 consolidated financial statements the Company has adjusted amounts previously reported in accordance with Canadian GAAP within the comparative financial information 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:

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

		At December 31, 2010			At January 1, 2010		
	Note 5 (c)	**CGAAP**	**Adj.**	**IFRS**	**CGAAP**	**Adj.**	**IFRS**
Assets							
Non-current assets							
Intangible assets	i.	-	149,892	149,892	-	185,035	185,035
Property, plant and equipment	i.	150,222	(149,892)	330	185,180	(185,035)	145
Investments in associate		44,282	-	44,282	-	-	-
		194,504	**-**	**194,504**	**185,180**	**-**	**185,180**
Current assets							
Other current assets		447	-	447	376	-	376
Inventories		2,656	-	2,656	-	-	-
Other receivables		124	-	124	31	-	31
Cash and cash equivalents		58,684	-	58,684	63,565	-	63,565
		61,911	**-**	**61,911**	**64,972**	**-**	**63,972**
Assets associated with discontinued operations		**74**	**-**	**74**	**847**	**-**	**847**
Total assets		**256,489**	**-**	**256,489**	**249,999**	**-**	**249,999**
Liabilities							
Current liabilities							
Accounts payable and accrued expenses		5,156	-	5,156	2,087	-	2,087
Current tax liabilities		103	-	103	12	-	12
Deferred consideration		12,643	-	12,643	-	-	-
		17,902	**-**	**17,902**	**2,099**	**-**	**2,099**
Non-current liabilities							
Other long-term liabilities		-	-	-	170	-	170
		-	**-**	**-**	**170**	**-**	**170**
Liabilities associated with discontinued operations		**3,069**	**-**	**3,069**	**3,167**	**-**	**3,167**
Total liabilities		**20,971**	**-**	**20,971**	**5,436**	**-**	**5,436**
Equity							
Share capital		432,506	-	432,506	379,673	-	379,673
Equity share rights		-	-	-	61,349	-	61,349
Share based payments reserve	ii	3,867	101	3,968	3,360	45	3,405
Cumulative translation adjustment		5	-	5	4	-	4
Accumulated deficit	ii	(200,860)	(101)	(200,961)	(199,823)	(45)	(199,868)
Total equity		**235,518**	**-**	**235,518**	**244,563**	**-**	**244,563**
Total liabilities and equity		**256,489**	**-**	**256,489**	**249,999**	**-**	**249,999**

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

		Year ended December 31, 2010		
	Note 5(c)	**CGAAP**	**Adj.**	**IFRS**
Continuing operations				
General and administrative expenses		(594)	-	(594)
Share based payments	ii	(514)	(56)	(570)
Depreciation and amortisation expense		(139)	-	(139)
Share of loss of associate		(27)	-	(27)
Operating loss		**(1,274)**	**(56)**	**(1,330)**
Finance costs		(1,353)	-	(1,353)
Finance income		2,631	-	2,631
Net finance income		**1,278**	**-**	**1,278**
Income / (loss) before income tax expense		**4**	**(56)**	**(52)**
Income tax expense		(81)	-	(81)
Net loss from continuing operations		**(77)**	**(56)**	**(133)**
Discontinued operations				
Loss from discontinued operations		(960)	-	(960)
Net loss for the year		**(1,037)**	**(56)**	**(1,093)**
Other comprehensive income:				
Currency translation differences		1	-	1
Total other comprehensive income		**1**	**-**	**1**
Total comprehensive loss for the year		**(1,036)**	**(56)**	**(1,092)**
Earnings per share:				
Continuing operations				
Basic and diluted		-	-	-
Discontinued operations				
Basic and diluted		-	-	-
Continuing and discontinued ops.				
Basic and diluted		-	-	-

(d) The following IFRS conversion adjustments have been adopted by the Company in order to present these consolidated 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 and 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 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 amortisation 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 based payments reserve and reduced accumulated deficit at the date of transition by $45 and increased share based payment expenses by $56 for the year ended December 31, 2010.

(e) 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 and December 31, 2010.

6. Business and geographical segments

The Company operates in one business segment, the exploration and development of oil and gas assets, in one geographical segment, the Kurdistan Region of Iraq. As a result, in accordance with *IFRS 8 Operating Segments,* the Company has presented its financial information collectively for one operating segment. Refer to note 12 for disclosure of the Company's discontinued operations.

7. General and administrative expenses

	For the year ended December 31,	
	2011	**2010**
General and administrative expenses incurred	8,622	5,417
General and administrative expenses capitalized as E&E assets	(7,540)	(4,823)
General and administrative expenses	**1,082**	**594**

The Company capitalizes as E&E assets those general and administrative expenses incurred which relate to the operational aspects of the Company's E&E activities.

Refer also to note 13.

8. Impairment losses

	For the year ended December 31,	
	2011	**2010**
Write down drilling inventory to net realizable value	1,243	-
Provision for impairment of exploration and evaluation assets	205,862	-
Write down of property, plant and equipment to liquidation values	399	-
Total impairment losses	**207,504**	**-**

The above indicated losses relate to the suspension in December 2011 of all operations in the Pulkhana and Arbat Blocks and to the subsequent relinquishment of the Pulkhana and Arbat production sharing contracts completed January 17, 2012. Refer also to notes 13, 14, 16, 20 and 23.

9. Finance cost

	For the year ended December 31,	
	2011	**2010**
Guarantee fees	915	1,353
Foreign exchange loss	862	-
	1,777	**1,353**

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 payable semi-annually and charged at a rate of 1.5% per annum. Prior to July 2010 the rate was 3% per annum. Refer also to note 22 for related party disclosures.

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

10. Finance income

	For the year ended December 31,	
	2011	**2010**
Interest income	518	416
Foreign exchange gain	-	2,215
	518	**2,631**

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

For the year ended December 31, 2010 the foreign exchange gain of $2.2 million resulted 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.

11. Taxation

(a) Income tax expense

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

	For the year ended December 31,	
	2011	**2010**
Loss from continuing operations before income tax	(210,601)	(52)
Corporate income tax rate	26.5%	30.0%
Computed income tax recovery	(55,809)	(23)
Increase / (decrease) resulting from:		
Non-taxable foreign exchange gain	228	(664)
Share issuance costs charged to share capital	(583)	(204)
Non-deductible compensation expense	70	154
Foreign tax rate differences	13,474	182
Effect of change in tax rates	54	233
Change in valuation allowance	42,064	586
Effect of changes in foreign exchange rates	110	(200)
Other	529	17
Income tax expense from continuing operations	**137**	**81**

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.

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

	For the year ended December 31, 2011	2010
Non-capital losses	104,218	61,715
Share issue costs carried forward	1,098	1,447
Properties-tax basis over carrying value	1,279	1,279
Exploration expenses	784	803
Future income tax assets before allowance	107,379	65,244
Valuation allowance	(107,379)	(65,244)
Future income tax assets	**-**	**-**

(b) Tax losses carried forward

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

	For the year ended December 31, 2011	2010
Canadian losses from operations	15,948	10,774
Canadian exploration expenses	3,134	3,210
Canadian unamortized share issue costs	4,199	5,606
Dutch losses from operations	207,138	1,446
U.S. Federal losses from operations	168,008	167,807
U.S. Federal – tax basis in excess of carrying values of properties	3,654	3,654
Total	**402,081**	**192,497**

The Canadian losses from operations may be used to offset future Canadian taxable income and will expire over the period from 2016 to 2031. The Canadian exploration expenses may be carried forward indefinitely to offset future taxable Canadian income. Canadian unamortized share issue costs may offset future taxable Canadian income of years 2012 to 2015. The U.S. Federal losses are available to offset future taxable income in the United States through 2031.

12. Discontinued operations

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

	For the year ended December 31, 2011	2010
Expenses		
General and administrative, other	201	698
Revision to asset retirement obligation	1,078	339
Operating loss	**1,279**	**1,037**
Gain on disposal of assets	**1,078**	**77**
Net loss attributable to discontinued operations	**201**	**960**

During the year ended December 31, 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 consolidated balance sheet are as follows:

	2011	2010
Assets		
Trade and other receivables	-	59
Other assets	21	15
	21	**74**
Liabilities		
Trade payables and accrued expenses	539	1,378
Provision	2,074	1,691
	2,613	**3,069**
Net liabilities	**2,592**	**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, estimated costs to abandon and reclaim the wells and facilities and the estimated timing of the costs to be incurred in future periods.

13. Intangible assets

	Exploration and evaluation assets	Other intangible assets	Total
At January 1, 2010			
Cost	184,953	84	185,037
Accumulated amortisation	-	(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)
Amortisation 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 amortisation	-	(70)	(70)
Net book value	**149,692**	**200**	**149,892**
For the year ended December 31, 2011			
Opening net book value	149,692	200	149,892
Additions	101,894	1	101,895
Amortisation expense	-	(97)	(97)
Impairment losses	(205,861)	-	(205,861)
Exchange differences	-	7	7
Net book value	**45,725**	**111**	**45,836**
At December 31, 2011			
Cost	251,586	271	251,857
Accumulated amortisation	-	(160)	(160)
Provision for impairment	(205,861)	-	(205,861)
Net book value	**45,725**	**111**	**45,836**

The 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 $1.7 million were capitalized during year ended December 31, 2011 (2010: $0.6 million). The cumulative total exploration overhead charge included in intangible E&E assets was $2.5 million at December 31, 2011 (2010: $0.8 million). Refer also to note 7.

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 exploration and evaluation assets by $61,349,000 representing the amount previously capitalized in relation to this right to receive equity shares. Refer also to note 17.

On July 26, 2011 the Company entered into a PSC in respect of the Taza Block (formerly Block K42) in Kurdistan. Pursuant to the terms of the PSC the Company paid a $20 million capacity building bonus in September 2011.

In December 2011 the Company took the decision to relinquish to the KRG the Pulkhana and Arbat Block PSCs and immediately suspend all operations associated with those two production sharing contracts. The Company has recorded a provision to expense all exploration and evaluation expenses, which includes acquisition costs, capacity building payments to the KRG, costs of acquiring seismic data, and drilling and testing costs which have been incurred by the Company on these two Blocks up to December 31, 2011. The relinquishment was completed on January 17, 2012. Refer also to notes 8 and 23.

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

14. Property, plant and equipment

	Oil and 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 year ended December 31, 2011				
Opening net book value	-	137	193	330
Additions	678	36	13	727
Disposals	(171)	(7)	(19)	(197)
Depreciation expense	(160)	(78)	(46)	(284)
Impairment losses	(174)	(17)	(10)	(201)
Exchange differences	-	5	2	7
Net book value	**173**	**76**	**133**	**382**
At December 31, 2011				
Cost	507	232	203	942
Accumulated depreciation	(160)	(139)	(60)	(359)
Provision for impairment	(174)	(17)	(10)	(201)
Net book value	**173**	**76**	**133**	**382**

As a result of the decision to relinquish the Pulkhana and Arbat PSCs the Company has determined that at December 31, 2011 there is an impairment in value of certain property plant and equipment employed in the exploration operations associated with these production sharing contracts and has recorded a provision for impairment on these assets. Refer also to notes 8 and 23.

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

15. 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 and 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 year ended December 31, 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:

	2011	2010
Cumulative cash contributions	47,827	27,360
Common share contribution	5,000	5,000
Deferred consideration	-	12,643
Acquisition costs	204	204
Share of net losses since acquisition	(298)	(27)
Recovery of costs from partner	(898)	(898)
Total investment in associate	**51,835**	**44,282**

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

	For the year ended December 31,	
	2011	2010
Total loss of associate	(809)	(81)
Company's 33.5% share of loss of associate	**(271)**	**(27)**

16. Inventories

	2011	2010
Drilling and downhole equipment	4,570	2,656
Provision for impairment	(1,242)	-
Total inventories	**3,328**	**2,656**

The Company has determined that at December 31, 2011 there was impairment in the value of certain inventory items which were to be used in the drilling programs in the Pulkhana and Arbat Blocks as a result of its decision in December 2011 to suspend all operations associated with these drilling programs. Refer also to notes 8 and 23.

17. Accounts payable and accrued expenses

	2011	2010
Trade accounts payable	17,409	879
Accrued expenses	4,379	4,263
Net payables to joint venture partners	1,457	14
Total accounts payable and accrued expenses	**23,245**	**5,156**

The accounts payable and accrued expense balance at December 31, 2011 includes charges and estimates directly related to the exploration activities in the amounts of $15.6 million in the Pulkhana Block, $3.0 million in the Arbat Block and $3.2 million in other charges related to other exploration and corporate activities.

18. 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	183,500,000	99,778
Share options exercised	1,301,666	1,065
Balance at December 31, 2011	**807,983,860**	**533,349**

Refer also to note 23.

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 13.

Earnings per share

The earnings per share amounts were as follows:

	2011	2010
Continuing operations:		
Net loss from continuing operations, in dollars	210,738,707	133,381
Weighted average common shares outstanding during the year	677,001,536	536,164,313
Basic and diluted loss per share from continuing operations, in dollars	0.31	-
Discontinued operations:		
Net loss from discontinued operations, in dollars	201,189	958,823
Weighted average common shares outstanding during the year	677,001,536	536,164,313
Basic and diluted loss per share from discontinued operations, in dollars	-	-
Continuing and discontinued operations:		
Net loss from continuing and discontinued operations, in dollars	210,939,896	1,093,204
Weighted average common shares outstanding during the year	677,001,536	536,164,313
Basic and diluted loss per share from continuing and discontinued operations, in dollars	0.31	-

19. 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 share options have terms of three to five years and vest over periods of up to three years. The exercise prices reflect trading values of the Company's shares at grant date.

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**
Granted	25,000	0.80
Exercised	(1,301,666)	0.49
Cancelled/forfeited	(50,000)	0.43
Outstanding at December 31, 2011	**3,233,334**	**0.72**

The cancelled/forfeited options during the year ended December 31, 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 December 31, 2011	2,803,335	0.75

The Company recognizes compensation expense on share options granted to both employees and non-employees using the fair value method at the date of grant, which the Company records as an expense. The share based payment 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)	3.20%	3.21%
Expected share price volatility (weighted average)	86.94%	86.95%
Expected option life in years (weighted average)	4.12	4.11
Grant date fair value (weighted average)	CAD 0.36	CAD 0.37

Share based payment expense for the year ended December 31, 2011 was $264 (2010: $570).

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

20. Commitments

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. In addition the Company entered into a third PSC in July 2011 in respect of the Taza Block (formerly Block K42) petroleum exploration and development property also located in Kurdistan.

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".

The Company holds a 60% undivided interest in the petroleum operations under the terms of the Arbat PSC, while 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".

ShaMaran holds a 20% working interest in the Taza PSC, and Oil Search Iraq Limited ("OSIL") is the operator with a 60% working interest in the PSC. The KRG holds a 20% working interest in the PSC with costs carried by ShaMaran and OSIL. The Company had previously been a party to an option agreement in respect of the Taza Block with the KRG and OSIL. ShaMaran and OSIL exercised their option on July 27, 2011 to convert that agreement into the PSC.

ShaMaran holds 33.5% of the issued shares of General Exploration Partners Inc ("GEP") which holds an 80% working interest in the Atrush Block PSC. Marathon Oil Corporation holds the remaining 20% interest with the KRG holding an option to acquire up to a 25% interest in the PSC prior to 180 days after declaration of a commercial discovery. GEP is responsible for 80% of the approved annual work program and budget within the appraisal period now in progress.

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.

The PSCs contemplate minimum financial commitments during the first exploration sub-period and also require the Contractor to fund certain community development, personnel, training, environmental, and technological assistance projects during the period over which the contracts are in effect.

As at December 31, 2011, the outstanding commitments of the Company were as follows:

	2012	2013	2014	Thereafter	Total
Pulkhana Block PSC	30,000	-	-	-	30,000
Arbat Block PSC	20,000	-	-	-	20,000
General Exploration Partners Inc	27,002	-	-	-	27,002
Taza Block PSC	4,417	1,667	1,667	-	7,751
Office and other	125	-	-	-	125
Total commitments	**81,544**	**1,667**	**1,667**	**-**	**84,878**

In December 2011 the Company took the decision to relinquish to the KRG the Pulkhana and Arbat Block PSCs and immediately suspend all operations associated with those two production sharing contracts. The relinquishment was subsequently completed in January 17, 2012 whereby the Company was released from further obligation under these two PSCs in exchange for payments totaling $25 million. Refer also to notes 8 and 23.

21. 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	2011	2010	2011	2010
Current assets					
Other receivables		105	124	-	-
Other current assets, excluding prepaid expense		68	91	-	-
Cash and cash equivalents		49,085	58,684	-	-
Financial assets associated with discontinued operations	12	-	59	-	-
Total financial assets		**49,258**	**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.

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	2011	2010
Current financial liabilities			
Accounts payable and accrued expenses	17	23,245	5,156
Current tax liabilities		122	103
Deferred consideration	15	-	12,643
Financial liabilities associated with discontinued operations	12	2,613	3,069
Total financial liabilities		**25,980**	**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.

Capital risk management

The Company manages its capital to ensure that entities within the Company will be able to continue as a going concern, while maximizing return to shareholders. The Company is not exposed to externally imposed capital requirements. The capital structure of the Company consists of cash and cash equivalents and equity, comprising issued share capital, reserves and retained earnings as disclosed in the consolidated statement of changes in equity. Given the current stage of development of the Company's assets, it is the Company's policy to finance operations through the issuance of equity instruments. Accordingly the Company has no debt at December 31, 2011.

Significant accounting policies

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

Financial risk management objectives

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

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

Commodity price risk

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

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

Foreign currency risk management

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

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

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

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

	Assets		Liabilities	
	2011	**2010**	**2011**	**2010**
Canadian dollars in thousands ("CAD 000")	42,165	50,432	618	90
Swiss francs in thousands ("CHF 000")	685	243	346	597

Foreign currency sensitivity analysis:

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

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

	Assets		**Liabilities**	
	2011	**2010**	**2011**	**2010**
Income statement	408	488	(6)	(1)

Interest rate risk management

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

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

Interest rate sensitivity analysis:

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

Credit risk management

Credit risk is the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company is primarily exposed to credit risk on its cash and cash equivalents and trade and other receivables. Trade and other receivables are primarily with joint venture partners in the oil and gas industry and are subject to normal industry credit risks. Joint venture receivables are typically collected within one to two months of the joint venture bill being issued to the partner. The Company mitigates risks arising from joint venture receivables by obtaining partner approval of capital expenditures prior to starting a project.

The Company manages credit risk by monitoring counterparty ratings and credit limits and by maintaining excess cash and cash equivalents on account in instruments having a minimum credit rating of R-1 (mid) or better (as measured by Dominion Bond Rate Services) or the equivalent thereof according to a recognized bond rating service.

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

Liquidity risk management

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

It is presently the Company's policy to finance its business by means of internally generated funds and external share capital. The Company manages liquidity risk by maintaining adequate cash reserves and by continuously monitoring forecast and actual cash flows. Annual capital expenditure budgets are prepared, which are regularly monitored and updated as considered necessary. In addition, the Company requires authorizations for expenditure on both operating and non-operating projects to further manage capital expenditures.

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

22. Related party transactions

	Purchases of services during the year		Amounts owing at the reporting dates	
	2011	**2010**	**2011**	**2010**
Namdo Management Services Ltd.	361	185	7	-
Mile High Holdings Ltd.	103	152	19	12
McCullough O'Connor Irwin LLP	56	41	14	-
Vostok Naphta Investment Ltd.	24	-	-	-
Lundin Petroleum AB	2,176	2,673	78	214
Total	**2,720**	**3,051**	**118**	**226**

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 year ended December 31, 2011 of $2,176 (2010: $2,673) were comprised of G&G and other technical service costs of $195 (2010: $382), reimbursement for Company travel and related expenses of $611 (2010: $601), office rental, administrative and building services of $455 (2010: $328) and $915 (2010: $1,362) relating to a guarantee provided to the KRG on behalf of the Company in respect of its minimum financial commitments, payable semi-annually and charged at a rate of 1.5 % per annum (3.0% prior to July 1, 2010).

Included within general and administrative expenses are contributions totalling $1,025 made in the year 2011 (2010: $485) to a charitable foundation whose Chairman is a major shareholder of the Company. Funds from this charity, in part, are used for community investment activity in Kurdistan.

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.

Refer also to note 23.

23. Events after the balance sheet date

On January 17, 2012 the Company signed a final binding agreement with the KRG to relinquish to the KRG the 60% working interests previously held in each of the Arbat and Pulkhana Production Sharing Contracts ("PSC"). Under the terms of the agreement the PSC for each of the Pulkhana and Arbat blocks was terminated whereby ShaMaran's interests in both PSCs were relinquished. On January 25, 2012 the Company paid a total of USD 25 million to the KRG, which will be expensed in 2012, in accordance with the terms of the agreement and relieving the Company of all further obligations under the PSCs.

On April 2, 2012 the Company entered into a debenture financing from two related parties (the "Lenders") in the principal amount of US$10,000,000 (the "Loan") on the following terms and conditions. The Loan will mature and be payable six months after closing of the Loan transaction (the "Maturity Date") and can be prepaid up to the Maturity Date without interest or penalty. Subsequent to the Maturity date interest will accrue on any unpaid Loan balance at 5% per annum commencing on the earlier of the Maturity Date or an event of default under the Debenture, and will be payable semi-annually thereafter. The Debenture is secured against the shares of the Company's operating subsidiaries. In connection with the Loan the Company has issued to the Lenders an aggregate of 3,000,000 common shares of the Company.

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