SHAMARAN
petroleum corp

ShaMaran Petroleum Corp

Interim Consolidated Financial Statements (unaudited)

For the three months ended March 31, 2010 and 2009

Expressed in United States dollars

Prepared by Management

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

	Note	As at March 31, 2010	As at December 31, 2009
ASSETS			
Current assets			
Cash and cash equivalents		62,571	63,565
Short-term investments		79	79
Accounts receivable		749	566
Receivables from joint venture partner		150	-
Prepaid expenses and other assets		347	609
		63,896	**64,819**
Non-current assets			
Property, plant and equipment	5	188,583	185,180
		252,479	**249,999**
LIABILITIES			
Current liabilities			
Accounts payable and accrued expenses		5,304	3,866
Net payables to joint venture partner		-	37
Income taxes payable		25	12
Asset retirement obligation	6	1,001	1,001
		6,330	**4,916**
Non-current liabilities			
Asset retirement obligation	6	350	350
Other long-term liabilities		301	170
		651	**520**
		6,981	**5,436**
SHAREHOLDERS' EQUITY			
Share capital	7	379,673	379,673
Shares to be issued	7	61,349	61,349
Contributed surplus	7	3,564	3,360
Accumulated other comprehensive income	4	6	4
Deficit		(199,094)	(199,823)
		245,498	**244,563**
		252,479	**249,999**

See accompanying notes to the Interim Consolidated Financial Statements.

Approved on behalf of the Board:

Cameron Bailey, Director

Keith Hill, Director

SHAMARAN PETROLEUM CORP.

Interim Consolidated Statement of Operations and Deficit (unaudited)

(Expressed in thousands of United States Dollars)

	Note	For the three months ended March 31, 2010	2009
Expenses			
Depreciation		26	-
General and administration		219	595
Stock-based compensation	7	204	-
Foreign exchange (gain)/loss		(1,694)	1,446
		(1,245)	**2,041**
Other income/(expense)			
Guarantee fees	9	(458)	-
Interest income		66	129
		(392)	**129**
Net income/(loss) before income taxes		**853**	**(1,912)**
Income tax expense	8	13	-
Net income/(loss) from continuing operations		**840**	**(1,912)**
Discontinued operations			
Loss from operations	3	(188)	(2,146)
Gain on asset disposal	3	77	-
		(111)	**(2,146)**
Net income/(loss)		**729**	**(4,058)**
Deficit, beginning of the period		**(199,823)**	**(202,739)**
Deficit, end of the period		**(199,094)**	**(206,797)**
Basic income/(loss) per share:			
Continuing operations		-	(0.01)
Discontinued operations		-	(0.01)
		-	(0.02)
Diluted income/(loss) per share:			
Continuing operations		-	(0.01)
Discontinued operations		-	(0.01)
		-	(0.02)
Weighted average number of common shares:			
Continuing operations		499,546	308,712
Discontinued operations		499,546	308,712

See accompanying notes to the Interim Consolidated Financial Statements.

SHAMARAN PETROLEUM CORP.

Interim Consolidated Statement of Comprehensive Income (unaudited)

(Expressed in thousands of United States Dollars)

	For the three months ended March 31, 2010	2009
Net income/(loss)	**729**	**(4,058)**
Other comprehensive income:		
Exchange gains arising from translation of the financial statements of a foreign operation	2	-
Comprehensive income/(loss)	**731**	**(4,058)**

See accompanying notes to the Interim Consolidated Financial Statements.

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

	Note	For the three months ended March 31, 2010	2009
Operating activities of continuing operations			
Net income/(loss) from continuing operations		840	(1,912)
Adjustments for non-cash items:			
Depreciation		26	-
Stock-based compensation		204	-
Changes in working capital:			
Accounts receivable		(245)	-
Receivables from joint venture partner		(150)	-
Prepaid expenses and other assets		262	-
Accounts payable and accrued expenses		1,519	-
Payables to joint venture partner		(37)	-
Income taxes payable		13	-
		2,432	**(1,912)**
Investment activities of continuing operations			
Property, plant and equipment		(3,298)	-
		(3,298)	**-**
Exchange gain on the translation of financial statements of a foreign operation		2	-
Cash flows used in continuing operations		**(864)**	**(1,912)**
Cash flows used in discontinued operations	3	(130)	(2,145)
Change in cash and cash equivalents		**(994)**	**(4,057)**
Cash and cash equivalents, beginning of the period		63,565	45,282
Cash and cash equivalents, end of the period		**62,571**	**41,225**

See accompanying notes to the Interim Consolidated Financial Statements.

1. NATURE OF OPERATIONS

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

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

The Company is engaged in the business of oil and gas exploration and development, and is currently in the pre-production stages of an exploration and development campaign in respect of petroleum properties located in the Kurdistan Region of Iraq. The Company conducts its operations through wholly owned subsidiary entities.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

These Interim Consolidated Financial Statements (unaudited) for the three months ended March 31, 2010 include the accounts of the Company and its wholly owned subsidiaries and its proportionate interest in joint ventures, and have been prepared in accordance with generally accepted accounting principles in Canada.

These Interim Consolidated Financial Statements (unaudited) for the three months ended March 31, 2010 have been prepared under the same accounting policies and methods of their application as the audited financial statements of the Company for the year ended December 31, 2009. Certain disclosures that are normally required to be included in the notes to the annual audited financial statements have been condensed or excluded. These financial statements should be read in conjunction with the Company's audited consolidated financial statements and accompanying notes for the year ended December 31, 2009.

On May 28, 2009, the Company sold to a third party substantially all of its oil and gas properties located in the United States in the Gulf of Mexico. For the three months ended March 31, 2010 and 2009, the financial results relating to these properties have been classified as discontinued operations. Refer to note 3.

(b) Going concern

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Future accounting standards

International Financial Reporting Standards

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

Business Combinations

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

Consolidated Financial Statements and Non-Controlling Interests

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

(Expressed in thousands of United States Dollars unless otherwise indicated)

3. DISCONTINUED OPERATIONS

On May 28, 2009, the Company sold to a third party substantially all of its petroleum properties located in the United States in the Gulf of Mexico.

The results of discontinued operations in the Interim Consolidated Statement of Operations and Deficit (unaudited) for the three months ended March 31, 2010 and 2009 are as follows:

	2010	**2009**
Revenue		
Oil and gas sales	-	899
Royalties	-	(184)
Net revenues	**-**	**715**
Expenses		
Operating	-	591
Exploration	-	755
Dry hole costs	-	6
Impairment of properties	-	15
Accretion	-	12
Depletion, depreciation and amortization	-	431
General and administration	190	1,051
	190	**2,861**
Other income		
Interest income	2	**-**
Net loss before income taxes	**(188)**	**(2,146)**
Income tax expense	-	-
Discontinued operations		
Loss from operations	**(188)**	(2,146)
Gain on asset disposals	77	-
	(111)	**(2,146)**

(Expressed in thousands of United States Dollars unless otherwise indicated)

3. DISCONTINUED OPERATIONS (continued)

The cash flows relating to discontinued operations in the Interim Consolidated Statement of Cash Flows (unaudited) for the three months ended March 31, 2010 and 2009 are as follows:

	2010	2009
Operating activities of discontinued operations		
Loss from discontinued operations	(111)	(2,146)
Adjustments for non-cash items:		
Depletion, depreciation and amortization	-	431
Impairment of properties	-	15
Dry hole costs	-	6
Accretion	-	12
Gain on asset disposals	(77)	-
Asset retirement obligation	-	426
Changes in working capital:		
Accounts receivable	62	(467)
Prepaid expenses	(200)	262
Accounts payable and accrued expenses	(81)	(236)
Payables to joint venture partner	-	2
	(407)	**(1,695)**
Investing activities of discontinued operations		
Property, plant & equipment	-	(450)
Proceeds from sale of assets	277	-
	277	**(450)**
Cash flows used in discontinued operations	**(130)**	**(2,145)**

During the three months ended March 31, 2010, the remaining inventories in the United States from discontinued operations were sold for gross proceeds of $277,000, resulting in a gain on asset disposals of $77,000 (2009: $nil).

(Expressed in thousands of United States Dollars unless otherwise indicated)

4. ACCUMULATED OTHER COMPREHENSIVE INCOME

Accumulated other comprehensive income for the three months ended March 31, 2010 and for the year ended December 31, 2009 are comprised as follows:

	March 31, 2010	December 31, 2009
Beginning of the period	**4**	**3,282**
Reclassification of cumulative foreign currency translation gain	-	(3,282)
Gain on currency translation of the financial statements of a foreign operation	2	4
End of the period	**6**	**4**

The financial statements of the Swiss branch entity of the Group, have been translated from the functional currency of Swiss Francs into the reporting currency of the Company, with a resulting currency translation gain of $2,000 at March 31, 2010 (2009: $nil).

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

5. PROPERTY PLANT AND EQUIPMENT

Property plant and equipment is comprised as follows:

	Cost	Accumulated depreciation	Net
As at March 31, 2010:			
Petroleum properties – Kurdistan	188,283	-	188,283
Corporate PP&E	332	(32)	300
	188,615	**(32)**	**188,583**
As at December 2009:			
Petroleum properties – Kurdistan	184,953	-	184,953
Corporate PP&E	233	(6)	227
	185,186	**(6)**	**185,180**

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

(Expressed in thousands of United States Dollars unless otherwise indicated)

6. ASSET RETIREMENT OBLIGATION

The current and non-current portion of the Group's asset retirement obligation of $1,001,000 (2009: $1,001,000) and $350,000 (2009: $350,000), respectively, relate to the remaining interests the Group holds in petroleum properties located in the United States. The liability was estimated based on the Group's remaining net ownership interest in the corresponding wells and facilities, the estimated costs to abandon and reclaim the wells and facilities and the estimated timing of the costs to be incurred in future periods.

7. SHARE CAPITAL AND CONTRIBUTED SURPLUS

(a) Share capital and contributed surplus

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

Share capital and contributed surplus are comprised as follows:

	Number of shares	Share capital	Contributed surplus
Common shares			
Balance at December 31, 2009	499,546,088	379,673	3,360
Stock options granted during the period	-	-	204
Balance at March 31, 2010	**499,546,088**	379,673	3,564

(b) Shares to be issued

During the Annual General Meeting of the Company held on October 16, 2009 the shareholders passed a resolution ratifying and approving certain production sharing contracts with the Kurdistan Regional Government (the "KRG"), which resulted in an obligation for the Company to issue 100 million common shares to the KRG as consideration in exchange for the interests in the corresponding petroleum properties, indicated in note 5. The share price at close of business on October 16, 2009 was Cdn $0.63 which has resulted in total consideration of $61,349,000 (Cdn $63,000,000). At March 31, 2010 the issuance of the shares was pending subject to certain actions to be performed by the KRG.

(Expressed in thousands of United States Dollars unless otherwise indicated)

7. SHARE CAPITAL AND CONTRIBUTED SURPLUS (continued)

(c) Share options

The Company has an established share purchase option plan whereby a committee of the Company's board of directors may, from time to time, grant up to a total of 10% of the issued share capital to directors, officers, employees or consultants. The number of shares under option at any specific time to any one optionee shall not exceed 5% of the issued and outstanding common shares of the Company. The term of any options granted under the plan will be fixed by the Board of Directors and may not exceed five years from the date of grant. All options granted are subject to a four month hold period from the date of granting. Vesting terms are at the discretion of the Board of Directors. All issued stock options have terms of three to five years and vest over periods of up to three years. The exercise price of an option is not less than the closing price on the TSX Venture Exchange ("the Exchange") on the last trading day preceding the grant date, less the applicable discount, provided that the exercise price will not be less than Cdn $0.10 per share.

Movement in stock options issued and outstanding is as follows:

	Number of options	Weighted average exercise price (Cdn $)
Outstanding at December 31, 2009	**4,110,000**	**0.82**
Granted	775,000	0.49
Cancelled/forfeited	(340,000)	2.15
Outstanding at March 31, 2010	**4,545,000**	**0.67**

At March 31, 2010, 2,343,333 options were exercisable at an average exercise price of Cdn $0.73 per share with a weighted average remaining life of 2.64 years.

(Expressed in thousands of United States Dollars unless otherwise indicated)

7. SHARE CAPITAL AND CONTRIBUTED SURPLUS (continued)

(c) Share options (continued)

The incentive stock options issued and outstanding are as follows:

Expiry date	No. of options outstanding at March 31, 2010	Exercise price (Cdn $)
April 24, 2011	1,235,000	0.48
January 18, 2011	300,000	1.20
March 27, 2012	150,000	2.15
September 10, 2014	1,375,000	0.67
September 30, 2014	710,000	0.64
January 3, 2015	600,000	0.47
February 3, 2015	75,000	0.46
March 25, 2015	100,000	0.60
	4,545,000	

The Company recognizes compensation expense on stock options granted to both employees and non-employees using the fair value method at the date of grant, which the Company records as an expense. The stock option compensation expense is calculated using the Black-Scholes option pricing model. The weighted average fair value of options granted and the assumptions used in their determination are as follows:

	2010	2009
Expected dividend yield	0%	0%
Risk-free interest rate (weighted average)	3.27%	3.32%
Expected stock price volatility (weighted average)	86.47%	95.77%
Expected option life in years (weighted average)	4.06	3.98
Grant date fair value (weighted average)	Cdn $0.35	Cdn $0.48

Stock option compensation expense for the three months ended March 31, 2010 was $204,000 (2009: $nil).

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

8. INCOME TAXES

For the three months ended March 31, 2010, the Group had income tax expense of $13,000, relating to a provision for income tax on service income generated in the Swiss branch entity of the Group, which was created in the fourth quarter of 2009. There was no income tax expense reported in the comparable period in 2009, as there was no taxable income in any of the Group companies.

9. RELATED PARTY TRANSACTIONS

Namdo Management Services Ltd. ("Namdo") provides corporate administrative support and investor relation services to the Company under an agreement which commenced April 1, 2007. For these services and associated reimbursable costs Namdo was paid $56,000 during the three months ended March 31, 2010 (2009: $33,000). Namdo is a private corporation owned by a shareholder of the Company.

During the first three months of the year 2010, the Company incurred legal fees of $19,000 (2009: $36,000) with a law firm in which an officer of the Company is a partner.

The Company receives services from various subsidiary companies of Lundin Petroleum AB ("Lundin"), a shareholder of the Company. Lundin charges during the first quarter of 2010 were $840,000 (2009: $nil) which was comprised of G&G and other technical service costs of $72,000 (2009: $nil), reimbursement for ShaMaran travel and related expenses of $192,000 (2009: $nil), office rental, administrative and building services of $118,000 (2009: $nil), and fees of $458,000 (2009: $nil) relating to a guarantee provided to the KRG on behalf of the Company in respect of its minimum financial commitments, charged at a rate of 3% per annum, and payable semi-annually beginning June 30, 2010.

10. COMMITMENTS AND CONTINGENCIES

(a) Production Sharing Contracts ("PSC")

As described in Note 15 to the audited consolidated financial statements for the year ended December 31, 2009, the Group had a combined $61 million minimum financial commitment relating to the PSCs governing its petroleum operations in two separate petroleum exploration and development properties, the Pulkhana Block 10 and the Arbat Block, located in the Kurdistan Region of Iraq. The PSCs also require the Group to fund certain personnel, training, environmental, and technological assistance projects, during the period over which the contracts are in effect. As at March 31, 2010, the total commitments under the two PSCs were approximately $61 million.

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

10. COMMITMENTS AND CONTINGENCIES (continued)

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

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

The Group estimates its remaining minimum commitments under the K42 Option Agreement to be approximately $1.7 million as at March 31, 2010.

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

(c) Net Profit Interest

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